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DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

VOLUME 11B

REIMBURSABLE OPERATIONS, POLICY AND PROCEDURES-- DEFENSE BUSINESS OPERATIONS FUND

DECEMBER 1994

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

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Volume 11B of the Regulation incorporates the following:

DoD Directive 7410.4, Industrial Fund Policy

DoD 7220.9-M, DoD Accounting Manual
Chapter 82, "Industrial Funds"
Chapter 95, "Industrial Fund Management Reports"

DoD Directive 7420.13, "Stock Fund Operations"

DoD 7420.13-R, DoD Stock Fund Operations

DoD Instruction 7420.12, Billing, Collection and Accounting for Sales of Materiel from Supply System Stock

DOD FINANCIAL MANAGEMENT REGULATION

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REIMBURSABLE OPERATIONS, POLICY, AND PROCEDURES - DEFENSE BUSINESS OPERATIONS FUND

CHAPTER 50

DEFENSE BUSINESS OPERATIONS FUND GENERAL POLICIES AND REQUIREMENTS

A. GENERAL

1. Overview

a. Treasury Fund Symbol. The Defense Business Operations Fund (DBOF) has been established under the authority of title 10, United States Code, Section 2208. The Treasury Account Symbol for the Defense Business Operations Fund is 97X4930.

b. General. The Defense Business Operations Fund consists of Business Areas that are managed by DoD Components for providing goods and services, on a reimbursable basis, to other activities within the Department of Defense and to non-DoD activities when authorized.

c. Charters. DoD Component business areas to be financed through the Defense Business Operations Fund shall be chartered under the DBOF to achieve the objectives contained in Addendum 1 to this chapter. A charter shall be prepared in accordance with chapter 51 of this Volume and submitted to the Under Secretary of Defense (Comptroller) for approval. Before charter preparation, DoD Components shall ensure that the proposed DBOF activity meets the criteria established for a Defense Business Operations Fund activity described in chapter 51, paragraph A of this Volume.

d. Funding. Business areas receive their initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and use those capital resources to finance the initial cost of products or services. Financial resources to replenish the initial working capital and to permit continuing operations is generated by the acceptance of customer orders. The Supply Management business area and the Capital Investment Program receive contract authority. Contract authority permits obligations to be incurred in advance of appropriations or in anticipation of receipts from customers but in accordance with an apportionment, allotment, or other limiting authority. Other than the Supply Management business area and the Capital Investment Program, all other Defense Business Operations Fund obligations must be supported by budgetary resources that are immediately available for outlay even though the outlay may not occur until a future date.

e. Segregation of Budgetary Resources. Where an activity receives budgetary resources from more than one source (for example, reimbursable authority from customer orders accepted and direct authority from appropriations, or allocations of appropriations, received), the receiving activity must maintain records which will enable it to control and report separately the transactions relating to each type of source.

f. Annual Operating Budgets. Commencing with the establishment, in FY 1992, of the Defense Business Operations Fund, annual operating budgets that provide official management cost goals are issued to the Services and Agencies for each business area. The annual budget consists of two primary parts -- the operating budget and the capital budget. The operating budget

represents the annual operating costs of an activity or Component, including depreciation and amortization expenses. The capital budget represents the amount of financial resources that are authorized for use in the acquisition of capital assets. Volume 2B, chapter 9, "Defense Business Operations Fund Business Area Analysis," provides additional details of Annual Operating Budgets for the Defense Business Operations Fund.

g. Customer Orders. Customer orders (funded requests for goods or services) provide the budgetary resources necessary to finance operations. To be valid, customer orders must be obligations of a Federal Government activity and cash advances from non-Federal Government customers. Cash advances may also be requested from Federal Government activities when directed, or approved, by the Under Secretary of Defense (Comptroller). Customer orders create a quasi-contractual relationship between a Defense Business Operations Fund activity and its customer.

h. Stabilized Rates and Prices. Defense Business Operations Fund activities operate on a break-even basis over the long term. Customer rates shall be established on an end product basis whenever feasible. The term "end product" means the item or service requested by the customer (output) rather than processes or other inputs in the achievement of the requested output (for example, the product requested rather than the direct labor hours expended in the achievement of that product). Rates are required to be established at levels estimated to recover the cost of products or services to be provided, as well as approved surcharges. The budget process is the mechanism used to ensure that adequate resources are budgeted in the customer's appropriated fund accounts to pay the established rates. Once established, rates are stabilized (held constant) for the applicable fiscal year. This "stabilized rate" policy serves to protect appropriated fund customers from unforeseen cost changes and thereby enables customers to more accurately plan and budget for DBOF support requirements. In turn, this policy also reduces disruptive fluctuations in planned DBOF work load levels and thereby permits more effective utilization of DBOF resources. Gains or losses in operations may occur as a result of variations in program execution. Realized gains and losses are generally reflected in offsetting adjustments to stabilized rates established in subsequent fiscal years. Occasionally however, realized losses may be funded by an appropriation, or by a transfer from available resources in another DoD account. The Defense Business Operations Fund includes a variety of business areas that are categorized into two groups for rate setting purposes.

(1) Supply Management Business Areas. The Supply Management business area uses commodity costs in conjunction with a cost recovery factor (previously termed "surcharge") to establish customer rates.

(2) Non-Supply Management Business Areas. Non-Supply Management business areas use unit cost rates established based on identified output measures.

i. Restrictions on Use of Customer Appropriations. Statutory limitations and restrictions imposed on the appropriated funds of a Defense Business Operations Fund customer are not changed when the customer places an order with the Fund. A Defense Business Operations Fund customer cannot use its appropriated funds to do indirectly, i.e., through placement of an order

with a Defense Business Operations Fund activity, what it is not permitted to do directly. Thus, the availability of an appropriation cannot be expanded or otherwise changed by transfer to the Defense Business Operations Fund. Appropriated funds cited on reimbursable orders are available only for the purposes permissible under the source appropriation and remain subject to the same restrictions. The ordering activity is primarily responsible for the determination of the applicability of the ordering appropriation. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the order should be returned with a request for an applicable appropriation cite.

2. Mobilization Capability. Each DBOF business area must plan for and maintain the capability to expand or alter operations, or to provide extraordinary supply or other functional area support necessary, to satisfy mobilization conditions when required. The nature and extent of the costs to be paid by a separate appropriation rather than charged to other business customers through the rates shall be in accordance with policy and procedures contained in the following chapters.

3. Conformance with Policy Issuances. The management and operation of each DBOF Business Area shall comply with financial management guidance and policies issued by the Office of the Under Secretary of Defense (Comptroller) and with requirements and procedures issued by the Defense Finance and Accounting Service. The policies, procedures, and reporting requirements contained within this Volume (Volume 11B) apply to all DBOF business areas unless otherwise specified. Policies, procedures, and reporting requirements contained herein that are unique to individual business areas are identified as such.

B. DEFENSE BUSINESS OPERATIONS FUND CORPORATE BOARD

1. Mission. The mission of the Defense Business Operations Fund Corporate Board is to work collaboratively to develop, review, and recommend Defense Business Operations Fund policies and procedures. As examples, the Board may:

a. Review business areas for inclusion or exclusion in the Defense Business Operations Fund.

b. Evaluate performance of individual business activities or business areas and the impact of that performance on cash, and on operating and capital investment goals.

c. Review and recommend actions to support DBOF management information systems.

2. Composition. The DBOF Corporate Board shall be composed of senior financial and/or functional managers, or their designated representatives. The Chief Financial Officer of the Department of Defense will serve as Chair. The Board members shall consist of one representative or their designated alternate from the following organizations: Joint Chiefs of Staff, Under Secretary of Defense (Acquisition and Technology), Under Secretary of Defense (Personnel and Readiness), Assistant Secretary of Defense (Command, Control, Communications and Intelligence), and Assistant Secretaries for Financial

Management of the Army, Navy and the Air Force. A representative of the Defense Finance and Accounting Service will serve as a special advisor to the Board on matters concerning accounting procedures and supporting financial systems. The Chair may elect to designate permanent observers to the Board from participating Components. Board members may recommend permanent observers for consideration by the Chair. Board members may also invite financial and functional managers, in limited numbers, to provide expertise in addressing specific agenda items. Representatives from other Defense Agencies and federal agencies may be invited to provide representatives to observe Board deliberations and to offer their views as they consider beneficial.

C. AUTHORIZED CUSTOMERS

Customers of a Defense Business Operations Fund activity may be:

1. Any DoD command, organization, office, or other element.

2. Non-DoD Federal Government Agencies.

3. Private parties and concerns when authorized by law including foreign governments, State and local governments, and others not officially representing the Federal Government.

4. Those U.S. manufacturers, assemblers, or developers authorized by Section 2208(h) of title 10, United States Code and in accordance with Section 4543 of title 10, United States Code and DoD Directive 4175.1, "Sale of Government-Furnished Equipment or Materiel and Services to U.S. Companies."

D. RESPONSIBILITIES

1. The Under Secretary of Defense (Comptroller) and Chief Financial Officer of the Department of Defense shall:

a. Establish DoD policy on DBOF operations.

b. Provide oversight on all financial management activities relative to the operations of the DBOF.

c. Authorize or approve specific activities to be included in the DBOF and the terms under which such activities shall be operated.

d. Rescind the authorization of specific DBOF activities deemed to no longer meet DBOF criteria or that may be operated more efficiently under other financing.

e. Issue all necessary budget preparation, accounting, and reporting policies.

f. Review and approve operating budgets, monitor execution of the budget and analyze the results thereof, and provide guidance to improve the efficiency of Defense Business Operations Fund operations.

2. The Director, Defense Finance and Accounting Service (Director, DFAS) shall:

a. Establish requirements, systems, procedures, and practices to comply with statutory and regulatory requirements.

b. Establish procedures ensuring that DBOF policies are implemented.

c. Issue supplementary instructions to guidance contained within this Regulation when necessary to provide for unique requirements within the DoD Components and to provide detailed operating instructions.

d. Monitor compliance with this guidance and other policy issuances through analysis of reports, visits to activities, and review of audits.

e. Evaluate the operation of DBOF activities to determine compliance with established requirements.

f. Evaluate Defense Business Operations Fund accounting systems for compliance with established requirements.

g. Prepare consolidated accounting reports for the DBOF.

3. The Secretaries of the Military Departments and the Directors of Defense Agencies, or their designees, who have activities financed under the Defense Business Operations Fund shall:

a. Manage DBOF activities within approved funding limitations.

b. Designate a management agency or command to be responsible for effective management of each DBOF activity.

c. Comply with, and recommend changes to, this and other governing regulations.

d. Provide periodic financial and management information as required by the Under Secretary of Defense (Comptroller) and Chief Financial Officer.

e. Submit applications to authorize new DBOF activities or to rescind the authorization of existing DBOF activities to the Under Secretary of Defense (Comptroller).

4. The Management Agency or Command assigned responsibility for Defense Business Operations Fund activities shall:

a. Budget and provide appropriated funds for the costs of maintaining unutilized plant and facilities being held for mobilization purposes at DBOF activities. Retention of facilities in excess of those necessary for current or planned workload shall be in accordance with DoD Directive 4275.5, "Acquisition and Management of Industrial Resources." The acquisition, retention, or disposal of unutilized plants and facilities at transportation activities must be approved by the Deputy Under Secretary of Defense (Logistics) (DUSD(L)).

b. Assign responsibility and authority to designated officials for management and operation of DBOF activities.

5. The Management of Each DBOF Activity shall:

a. Incur obligations and costs as necessary and allowable to perform the activity mission.

b. Control performance costs in line with the annual operating budget as approved by the Under Secretary of Defense (Comptroller).

c. Identify to higher management any impediments to achievement of performance and cost goals.

d. Identify and justify to higher management those investments which will produce future improvements in effectiveness and efficiency.

6. The Customers of each DBOF Activity shall be responsible for budgeting and budgetary control for the cost of end-products and services ordered from a DBOF activity. The appropriation, apportionment, and funding process provides higher-level control and visibility to the Congress of the cost of material, work, and services ordered by customers of DBOF activities.

E. ACCOUNTING STANDARDS

1. Federal Government Accounting Principles and Standards. The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States ("the Principals") established the Federal Accounting Standards Advisory Board (FASAB) in October 1990 by a memorandum of understanding. The role of FASAB is to deliberate upon and make recommendations to the Principals on accounting principles and standards for the Federal Government and its Executive Branch agencies. The Director of OMB will review each statement of accounting principles, standards, or concepts recommended by the FASAB and decide upon the appropriateness of the statement and its desirability for the Federal Government. If a recommended statement of accounting principles or standards is agreed to by the Director of OMB, the Secretary of the Treasury, and the Comptroller General, the Director of OMB will issue a Statement of Federal Financial Accounting Standards (SFFAS). SFFASs shall be considered generally accepted accounting principles (GAAP) for Federal agencies. Agencies shall apply the SFFASs in preparing financial statements in accordance with the requirements of the Chief Financial Officers Act of 1990. Auditors shall consider SFFASs as authoritative references when auditing financial statements. The SFFASs shall have no effect on the manner in which Federal agencies budget for, monitor and control the expenditure of budgetary resources. Those requirements are defined in OMB Circulars A-11 and A-34 and other OMB documents.

2. Hierarchy of Accounting Standards. The Federal Accounting Standards Advisory Board, with approval of the General Accounting Office, Office of Management and Budget, and the Treasury, has approved the following hierarchy of accounting standards for use in preparing federal agency financial statements:

a. Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals. (The JFMIP principals are the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States.)

b. Form and content requirements included in OMB Bulletin 93-02, dated October 22, 1992 and subsequent issuances.

c. Accounting standards contained in agency (i.e., DoD) accounting policy, procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices.

d. Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

3. Interpretation of Statements of Federal Financial Accounting Standards. DoD Components desiring an interpretation of a Federal Government GAAP shall request such interpretation from the Director for Accounting Policy, Office of the Under Secretary of Defense (Comptroller). The Director for Accounting Policy shall respond to that request or, if necessary, forward the interpretation request to the OMB Office of Federal Financial Management. In accordance with OMB Circular A-134, Financial Accounting Principles and Standards," the OMB may respond to the request in one of two ways--by providing technical assistance or through issuance of an Interpretation of Federal Financial Accounting Standards. An "Interpretation of Federal Financial Accounting Standards" is a document of narrow scope that provides clarifications of original meaning, additional definitions, or other guidance pertaining to an existing Statement of Federal Financial Accounting Standards (SFFAS). In the event OMB decides an Interpretation of Federal Financial Accounting Standards is necessary, OMB Circular A-134 directs OMB to provide written copies of the request to the Comptroller General and the Secretary of the Treasury; examine, as appropriate, applicable literature and consult with knowledgeable persons; draft an Interpretation of Federal Financial Accounting Standards; obtain the consensus of Treasury and the General Accounting Office on the interpretation; and publish the Interpretation of Federal Financial Accounting Standards.

4. Defense Business Operations Fund Accounting System Requirements. The accounting system established for the Defense Business Operations Fund shall employ the accrual basis of accounting, be transaction-based, and use the double-entry method of accounting.

F. BUDGETARY CONTROL STANDARDS

1. Defense Business Operations Fund accounting systems shall have the capability to account for the status of budgetary resources on a continuous basis. Budgetary controls shall be designed to prevent incurring costs in excess of the amounts necessary to provide goods and services to ordering activities, the accumulation of excess inventories and operating materials and supplies, and the incurring of liabilities in excess of payment capability.

2. Budgetary resources are comprised of:

a. appropriated or reappropriated amounts becoming available during the year,

b. the net of any nonexpenditure transfers between Federal Government accounts,

c. unfilled customer orders, and

d. unobligated balances brought forward from the previous year.

Anticipated reimbursements and anticipated customers' orders are not considered a budgetary resource. Obligations incurred (undelivered orders and accrued expenditures-paid and unpaid) are claims against budgetary resources.

G. GENERAL LEDGER ACCOUNTS. The DoD Uniform Chart of Accounts are prescribed for use by DBOF activities to record budgetary and proprietary accounting transactions on a double-entry basis. Additional primary accounts may only be added with the written consent of the Office of the Under Secretary of Defense (Comptroller). Subaccounts to the prescribed primary general ledger accounts may be established by the Defense Finance and Accounting Service as needed to satisfy reporting and management information requirements. An illustration of the relationship of budgetary and proprietary transactions is at Addendum 2 to this chapter.

H. AUDITING. Defense Business Operations Fund activities are subject to audit by the audit organizations of the Military Services, by the Inspector General, Department of Defense, and by the General Accounting Office. The frequency and performance of audit performed by DoD audit organizations shall be determined by the audit organization based on guidance set forth in chapter 5 of DoD 7600.7-M, "Internal Audit Manual." Copies of audit reports shall be submitted to the Deputy Under Secretary of Defense (Comptroller / Financial Management) and the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller).

OBJECTIVES OF THE DEFENSE BUSINESS OPERATIONS FUND

A. The Defense Business Operations Fund is designed to:

1. Provide a more effective means for controlling the costs of goods and services required to be produced or furnished by Defense Business Operations Fund activities, and a more effective and flexible means for financing, budgeting, and accounting for the costs thereof.

2. Create and recognize contractual relationships between Defense Business Operations Fund activities and those activities that budget for and order the end-products or services.

3. Provide managers of Defense Business Operations Fund activities the financial authority and flexibility required to procure and use manpower, materials and other resources effectively.

4. Encourage more cross-servicing among the DoD Components and among their operating Agencies, with the aim of obtaining more economical use of facilities.

5. Facilitate budgeting for and reporting of the costs of end-products. This will underline the cost consequences of choosing between alternatives.

B. Specific objectives include the following:

1. Furnish managers of Defense Business Operations Fund activities with modern management tools comparable to those utilized by efficient private enterprises engaged in similar types of activities.

2. Improve cost estimating and cost control through comparison of estimates and actual costs.

3. Obtain alert, forward-looking financial planning at Defense Business Operations Fund activities by making them financially dependent on reimbursements received for goods and services furnished in fulfilling orders from customers.

4. Encourage producers of goods and services to coordinate labor forces and inventories with workload, budgeting, and cost control.

5. Instill in the officials of ordering Agencies a greater sense of responsibility and self-restraint in balancing the cost of specific goods and services to be ordered against the benefits and advantages of their procurement, especially in the light of alternative or competing demands.

6. Place ordering Agencies in the position of critically evaluating purchase prices (that is, costs of performing activities) as well as quality and delivery-speed of goods and services ordered.

7. Enable ordering Agencies to budget and account on an "end-product" basis (the same as when buying from commercial contractors), thereby simplifying budget presentations, budgetary control, and accounting procedures for both producers and ordering agencies.

8. Establish, whenever feasible, standard prices or stabilized rates and unit prices for goods and services furnished by Defense Business Operations Fund activities, thus enabling ordering Agencies to plan and budget more confidently.

9. Encourage ordering Agencies' management to improve program planning and scheduling in response to producers' efforts to plan and negotiate for orders as far in advance as feasible.

RELATIONSHIP OF BUDGETARY AND PROPRIETARY TRANSACTIONS

Transaction	When order is placed	When materials are delivered	When materials are used	When bill is paid
	(Obligation)	(Accrued expenditure)	(Cost or (expense)	(Outlay)
Order for materials is placed.	Obligation is recorded as an undelivered order and a decrease to the uncommitted/ unobligated budgetary resources			
Materials are received or constructively received.		This is recorded in the proprietary accounts as an account payable, and as an increase in the asset accounts. It is recorded in the budgetary accounts as a decrease to undelivered orders and an increase to accrued expenditures unpaid.		

TRANSACTION STAGES (continued)

Transaction	When order is placed	When materials are delivered	When materials are used	When bill is paid
Materials are used or consumed.			Cost is recorded in the proprietary accounts as a decrease in assets and a charge to the applicable expense account or work in process account	
Payment is made for the materials.				Outlay is recorded in the proprietary accounts as a reduction of accounts payable and a reduction to cash. In the budgetary accounts it is recorded as a decrease to accrued expenditures unpaid and an increase to accrued expenditures paid.

CHAPTER 51

ESTABLISHMENT AND CLOSURE OF FUND ACTIVITIES AND TRANSFER OF FUND FUNCTIONS

A. ESTABLISHMENT

Prior to the financing of an activity under the Defense Business Operations Fund, a charter, prepared in accordance with Addendum 2, shall be signed by the Secretary (or Under Secretary) of the Military Department, the Director (or Deputy Director) of a Defense Agency, or the Commander-in-Chief of the United States Transportation Command, as applicable, and submitted to the Under Secretary of Defense (Comptroller) for approval. The Defense Business Operations Fund business areas, and, in some instances, as appropriate, individual activities may be chartered to operate as a Fund entity. Before charter preparation, DoD Components shall ensure that proposed Defense Business Operations Fund business areas (and installations within that business area) meet the following criteria:

1. Outputs (i.e., production of goods or provision of services that are common to requirements of more than one Military Department or Defense Agency or ordering activities within a Military Department or Defense Agency) can be identified.

2. An accounting system is available that is capable of collecting and identifying costs to outputs.

3. Activities that require and order products or services (i.e., customers) can be identified so that resources can be aligned in the account of the customer with the requirement.

4. Evaluation of buyer-seller advantages and disadvantages to include an assessment of the customer's ability to influence cost by changing demand.

B. DEFENSE BUSINESS OPERATIONS FUND CHARTER REQUIREMENTS

1. Charter Format. The Defense Business Operations Fund charter format is included in the Addendum to this chapter. The charter is composed of two parts --

a. An overall DBOF charter for signature by the Under Secretary of Defense (Comptroller) and the Deputy Secretary of Defense (Addendum 1); and

b. Supplemental provisions (Addendum 2) that are applicable to each DoD Component Business Area included within the DBOF. The supplemental provisions lay out the mission of that Component by Business Area and include exceptions, if any, from DBOF policy that are authorized for that business area. The supplemental provisions shall be signed by the Secretary (or Under Secretary) of a Military Department, the Director (or Deputy Director), of a Defense Agency or the Commander-in-Chief of the United States Transportation Command, as applicable, and submitted to the Under Secretary of Defense (Comptroller) for approval.

2. Charter Contents. Each supplemental provision (hereafter called "charter") shall include the following as a minimum:

a. Name and location of the activity or activities to be operated under the charter.

b. Brief description of the functions of the activity or activities and nature of its products or services.

c. Designation of the organization (Management Command) directly below the Departmental level that has authority over the management of DBOF businesses. Additionally, the supplemental provisions shall state whether the Management Command is funded from the Defense Business Operations Fund.

d. Statement of any specific exceptions to Fund policies.

e. The amount of working capital approved to establish each activity included within the charter including the amount, if any, of appropriated funds included within the approved working capital.

3. Charter Support. Documentation supporting the charter application of an activity requesting entry into the Defense Business Operations Fund shall include:

a. Complete explanation of how the proposed Fund activity meets the minimum criteria listed above and any additional requirements of the DoD,C for the specific activity or activities.

b. Complete justification of estimated working capital requirements including explanation of factors or basis upon which calculated.

c. Financial statements disclosing the projected financial activity for, at a minimum, the first fiscal year of operation as a Fund activity. The financial statements shall be prepared in the format prescribed for Fund financial statements and shall consist of the following:

(1) Statement of Financial Position, disclosing projected assets, liabilities, and net position at the end of the reporting period;

(2) Statement of Operations (and Changes in Net Position), disclosing the projected results of the activity's operations including the change in its net position during that period.

(3) Statement of Cash Flows, disclosing estimated cash receipts and disbursements with an explanation of the expected changes in cash during the period. The Statement of Cash Flows shall contain information concerning the amount of working capital necessary for the activity or activities taking into consideration the following:

(a) The requirement for initial investment in operating materials and supplies.

(b) The initial liabilities assumed that require cash for their liquidation.

(c) The funding requirement needed to cover estimated costs to be incurred for operations or capital assets before the time that reimbursements may be obtained.

(4) Notes to financial statements, providing additional disclosures necessary to make the financial statements fully informative and not misleading.

d. Information concerning the expected volume of business, by type and character, and the source of reimbursements by customer agency and appropriation, or other source, during the current and ensuing fiscal years. This shall include:

(1) Designation of the agencies that are the customers for the various products and services of the activity, and the sources of reimbursement expected from them as well as the underutilized and unutilized capacity and other support costs.

(2) The effect on customer appropriation budgets in cases in which current-year, customer appropriation budgets or budget estimates provide for financing of some costs of the activity in a manner other than the Defense Business Operations Fund. A statement of the budgetary adjustments or interim funding procedures being proposed as a result of the charter application should also be provided.

e. Explanation of goods or services proposed to be furnished outside the Department of Defense.

f. Justification of any exception to the provisions of this Regulation.

4. Amendment or Cancellation of Charters. Existing charters shall be canceled or amended upon approval by the Under Secretary of Defense (Comptroller). Requests for cancellations or amendments must be supported by the following information:

a. Complete justification for the proposed action that may consist of copies of supporting evaluations or studies.

b. Information as to the disposition of assets and liquidation of liabilities.

5. Annual Charter Review. DoD Components shall review Fund operations each fiscal year to ensure that the supplemental provisions are current. Any needed changes shall be submitted to the Under Secretary of Defense (Comptroller).

C. COMMENCEMENT OF OPERATIONS

Upon charter approval and commencement of Fund operations, financial control over initial appropriations, assets, liabilities, and capital shall be established in accordance with the following guidance:

1. Initial Appropriation and/or Reappropriation. An appropriation is an authorization by an act of Congress that permits agencies to incur obligations and to make payments out of the U.S. Treasury for specified purposes. Appropriations made available to commence operation of a Defense Business Operations Fund entity remain available for obligation without fiscal year limitation for their specified purpose until expended or withdrawn. A reappropriation to a business operations fund account is statutory authority to restore the obligational availability of all or part of the unobligated balance of budget authority that has expired or would otherwise expire in an annual or multiple-year appropriation. Reappropriation transactions require nonexpenditure transfer of the funds involved from the expired or otherwise expiring account to the Defense Business Operations Fund account. Other appropriations may be made available to acquire war reserve assets, augment existing inventories, or other purposes. Appropriations received shall be recorded as invested capital in proprietary accounts and as direct program in budgetary accounts. The receipt of an appropriation or reappropriation is recorded at the Departmental level only. The allocation, if any, of the appropriation or reappropriation is recorded at the intermediate and activity level as appropriate. Typical budgetary and proprietary accounting entries applicable to receipt and allocation of appropriations and reappropriations are illustrated in chapter 52 of this Volume.

2. Initial Assets and Liabilities

a. Working Capital. Working capital to commence operations may be provided by a nonexpenditure transfer of fund balances from another appropriation or fund account to the Defense Business Operations Fund account. Nonexpenditure transfers received to support ongoing operations shall be recorded as follows:

Dr 1013 Funds with Treasury
Cr 3211.4 Net Treasury Balance - DBOF

Dr 4170 Appropriation Transfers
Cr 4450 Authority Available for Apportionment

Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization."

b. Personnel. Personnel assigned from an appropriated fund activity to a Defense Business Operations Fund activity generally are accompanied by a liability for the amount of accrued earnings and annual leave earned by those employees prior to their transfer. Ordinarily, payment in the form of cash or other agreed upon equivalent assets such as inventories or equipment should be made to the receiving Defense Business Operations Fund activity for the amount of the liabilities assumed. However, the entry to record initial liabilities, to the extent that payment in full is not received is:

Dr 1011.1 Funds Collected - Operating Program - DBOF
Cr 2211 Accrued Payroll - Civilian
Cr 2221 Accrued Annual Leave - Civilian

Entry to record liability associated with personnel transfers when payment accompanies the liability transfer.

Dr 3211.3 Liabilities Assumed
Cr 2211 Accrued Payroll - Civilian
Cr 2221 Accrued Annual Leave - Civilian

Entry to record liability associated with personnel transfers when payment does not accompany the liability transfer.

c. Transfers-In of Fixed Assets. Assets provided from other appropriations or funds to commence operations of a Fund activity shall be recorded as Assets Capitalized. The business operations fund shall record a liability for an item transferred from a non business operations fund account only when the item is undelivered at the time of the transfer and the obligation for the item on the books of the organization from which the item was transferred resulted from a reimbursable order from a customer. Otherwise, bills for assets on order at the time of the transfer to the business operations fund shall be paid by the appropriation or fund originally ordering the item. This is appropriate since the original appropriation or fund ordering the item was funded through the budget process to procure the item. Capitalized assets provided without reimbursement may constitute justification for a stock withdrawal authorization when approved by authorized officials. (See chapter 55, "Supply Management Operations," of this Volume regarding stock withdrawal credits.) The entry to record assets provided to commence Fund operations as well as those contributed during the life of the Fund are:

Dr 1510 Operating Materials and Supplies
Dr 1521 Inventory Held for Sale
Dr 1522 Inventory Held in Reserve for Future Sale
Dr 1523 Inventory Held for Repair
Dr 1524 Inventory - Excess, Obsolete and Unserviceable
Dr 1580 Work in Process
Dr 1710 Land
Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Dr 1760 Equipment
Dr 1800 Other Fixed Assets
Cr 2130 Contract Holdbacks
Cr 3211.2 Assets Capitalized

Entry to record receipt of assets. Documentation supporting this entry includes journal vouchers and receiving reports.

d. Initial Capital. The following capital accounts are subsidiary to the control account 3211, "Capital Investment - DBOF," and are applicable at the time of initial capitalization:

(1) Appropriations Available. At the time of initial capitalization, the subsidiary account 3211.1, "Appropriations Available,"

shall equal the amount of the initial appropriation or reappropriation, if any, received from the Congress or transferred from other activities or the departmental reserve of the DoD Component industrial fund.

(2) Assets Capitalized. At the time of initial capitalization, the subsidiary account 3211.2, "Assets Capitalized," shall equal the value of all assets (excluding the initial appropriation) transferred to the activity without reimbursement or assumption of liability by the industrial fund.

(3) Liabilities Assumed. At the time of initial capitalization, the subsidiary account 3211.3, "Liabilities Assumed," shall equal the sum of the obligations transferred to the activity for which industrial fund resources are liable for future disbursement.

(4) Treasury Fund Balance. At the time of initial capitalization, the subsidiary account 3211.4, "Net Treasury Balance - DBOF," shall equal the sum of Treasury fund balances transferred from other appropriations or funds.

D. BASE CLOSURE

1. General. The Defense Business Operations Fund does not have any funds available to it for payment of costs or absorption of losses that are not related to its output. Reimbursable rates developed for Defense Business Operations Fund activities generally recover only costs incurred in providing the requested good or service. Costs over and beyond those costs are generally not considered in reimbursement rate computations. As a result, the Defense Business Operations Fund (DBOF) does not have, through its normal operations, funds available for payment of costs resulting from closure actions that are directed by higher authority such as the Base Closure and Realignment Commission.

2. Base Closure Actions. Upon notification that a DBOF activity is to be closed, the following actions shall be taken by the closing activity:

a. Commitments. Review outstanding commitments and cancel those not absolutely necessary.

b. Contracts. Review all existing contracts and terminate those for which the contracted service or good is, or will be, no longer essential. It is especially important that contracts for capital assets be terminated when feasible. Termination costs which result from the cancellation shall be identified as base closure costs. If an outstanding contract is essential to the needs of another DoD activity, that need may be filled through a contract modification citing the appropriation or fund of the needing DoD activity.

c. Undelivered Orders/Outstanding Obligations. Review undelivered orders and other outstanding obligations for goods and services ordered. Cancel orders or contracts for goods or services that are no longer needed or that are not likely to be delivered, and deobligate the appropriate amounts.

d. Accounts Payable. Review accounts payable for goods received but not yet paid, return goods that are no longer needed, and recover the amounts payable.

e. Unfilled Customer Orders. Review unfilled customer orders to determine the orders for goods or services that can be completed. If customer orders for goods or services can be completed, the closing activity may continue work. If customer orders cannot be completed, the closing activity shall bill the customer for the work completed and return any remaining unobligated balances to the customer.

3. Financing BRAC Related Base Closure Costs. Costs may be financed by a BRAC account when those costs are as a direct result of a Base Closure and Realignment Commission determination that a base be closed. BRAC costs are those required to carry out actions that are in direct support of closing or realigning bases. BRAC costs must be in direct support of Base Closure and Realignment Commission determination. Prior year, current year, or budget year operating losses in the DBOF are not to be budgeted in the BRAC base closure accounts. Although overhead associated with the below listed costs shall be charged to the BRAC account, increases in overhead on existing and new customer work shall not be considered a direct result of a determination that a base be closed and, therefore, will not be charged to a BRAC account. Costs identifiable directly to base closure actions shall be accumulated separately for reimbursement from a BRAC account. Costs attributable to base closure actions include:

a. Environmental Restoration and Mitigation. This includes reducing, removing and recycling hazardous waste, and removing unsafe buildings and debris.

b. Planning. Conduct of such advance planning and design as may be required to transfer functions from an activity being closed to another military installation.

c. Outplacement Assistance. Assistance in relocation, training, or other necessary assistance to civilian employees employed by the Department at installations being closed.

d. Community Programs. Community Programs include economic adjustment assistance to a community in which the closed base is located, or community planning assistance to the community to which functions will be transferred as a result of closure of a military installation.

4. Financing Non-BRAC Related Base Closure Costs. Paragraph D.3. above specifies costs to be financed from a BRAC account. Other costs at an activity undergoing closure, or to be closed, shall not be financed by a BRAC account even though the closure was directed as a result of a determination of a Base Closure and Realignment Commission. Those other costs shall be financed either by the DBOF or by an operations and maintenance (O&M) appropriation as follows:

a. DBOF Financed. The following shall be financed by the DBOF to the extent permitted by amounts available from existing and new customer orders:

(1) Current year costs in support of customer orders.

(2) Prior year, current year, or budget year operating losses.

(3) Increases in overhead even though those increases could be attributed to decisions to close bases.

b. Appropriation (O&M) Financed. The following shall be financed through a transfer from the operations and maintenance appropriation of the DoD Component responsible for the activity incurring the loss.

(1) All costs at a closing activity in the year of closure that are not associated with a valid work order or are as a result of other than a determination of a Base Closure and Realignment Commission that the activity be closed.

(2) Direct and indirect (including General and Administrative) operating costs for which there are not sufficient resources in existing customer orders or other resources of the closing activity.

(3) Prior year losses (to the extent not financed from existing and new customer orders as stated in paragraph D.4.a(2) above) shall be financed as a pass through from the operations and maintenance appropriation of the DoD Component responsible for the activity incurring the loss.

5. Procedures for Requesting DoD Base Closure Account Funds. To request an allocation of DoD base closure account funds, an activity that has been selected for closure by a DoD Base Closure and Realignment Commission determination shall submit a "DoD Base Closure Account Financial Plan," (Format 460-BC) [attached], through its Command hierarchy, to the Directorate for Military Construction, Office of the Deputy DoD Comptroller (Program/ Budget) for approval. A separate narrative explanation for planned expenditures will also be included in sufficient detail to support the DoD Component financial plan. If a DBOF activity is the host activity at the installation to be closed, it is responsible for coordination with all affected tenant activities, including Defense Agencies, Defense Medical Facilities Office, Reserve Components, and nonappropriated fund activities. If a DBOF activity is a tenant activity at an installation to be closed, it will identify specific base closure program requirements to its host DoD installation.

6. Allocation of DoD Base Closure Account Funds. The Directorate for Military Construction, Office of the Deputy DoD Comptroller (Program/Budget) shall, upon approval by the Office of Management and Budget of the Apportionment and Reapportionment Schedule (DD Form 1105) for the base closure account, provide a Fund Authorization Document to the Director for Budget and Finance, Washington Headquarters Services (WHS) to fund the Financial Plan as approved. The Director for Budget and Finance, WHS, shall, in accordance with direction received from the Directorate for Military Construction, allocate DoD base closure funds to the Military Departments or Defense Agencies. Upon receipt of the allocation from the WHS, the Military Departments or Defense Agencies shall distribute, in accordance with its normal fund distribution procedures, the base closure funds to the installations responsible for base closure actions. Upon receipt of the fund distribution, the installation shall record the allotment from the DoD base closure account. The installation-level entry to record that allotment is:

Dr 4580 Allotments Received
Cr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period

and

Dr 1013 Funds With Treasury
Cr 3100 Appropriated Capital

Entries to record receipt of a direct program allotment.

7. Use of DoD Base Closure Account Funds. An installation shall implement base closure and realignment actions and administer its allocation of base closure funds in accordance with the approved financial plan. If a project is to be executed that does not appear on the approved financial plan, the prior approval of the Directorate of Military Construction, Office of the Deputy DoD Comptroller (Program/Budget), is required. Expenses that result in a fund outlay and that are incurred against an allotment from a DoD base closure shall be accounted for as follows:

Dr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period
Cr 4931 Accrued Expenditures - Paid -Direct Program

and

Dr 3100 Appropriated Capital
Cr 5700 Appropriated Capital Used

Dr 6100 (Applicable Operating Expense Account)
Cr 1012 Funds Disbursed

Entries to record outlays of an allotment.

8. Base Closure Account Reporting Requirements. An installation receiving an allotment of DoD Base Closure account funds shall prepare a report on the status of its allotment. The status report shall be transmitted to the entity from which the allotment was received in accordance with the reporting due dates required by that entity.

9. Disposition of Real Property Assets

a. The loss (or gain) from the sale, lease, or other disposal of assets shall be recorded by the activity having financial custody of those assets. The sale, lease, or other disposal action will only be recorded in proprietary accounts of that installation. Any proceeds generated from the sale, lease, or other disposal of assets does not add to, or otherwise affect, the budgetary accounts of that activity. An illustrative accounting entry follows:

Dr 1011 Funds Collected (if any)
Dr 1739 Accumulated Depreciation on Buildings
Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr/Cr 7300 Extraordinary Items (Debit for Loss/Credit for Gain)
Cr 1730 Buildings
Cr 1740 Other Structures and Facilities

To record extraordinary loss (or gain) resulting from the sale or other disposal of real property assets.

b. Proceeds resulting from the transfer or disposal of property or facilities (including buildings and structures) due to a base closure directed by a Base Closure and Realignment Commission shall be deposited as reimbursements into the DoD Base Closure Account, DoD Base Closure Account of 1990, DoD Overseas Military Facility Investment Account, or Reserve Account as appropriate. Proceeds resulting from transfer or disposal of property or facilities (including buildings and structures) due to a base closure directed by other than a Base Closure and Realignment Commission shall be deposited as reimbursements into the appropriate miscellaneous receipt Treasury account. Examples of transactions involving proceeds resulting from the transfer or disposal of property or facilities include funds derived from temporary leases of Government property and property upon which settlement has occurred and title has been passed to the new owners. "Good faith" deposits or earnest funds should be deposited to the Budget Clearing Account (Suspense), F3875, until finalization of the sale (settlement) takes place. Upon finalization of the sale (settlement), deposits made to the Budget Clearing Account (Suspense) shall be transferred to the appropriate account as indicated above.

c. A copy of deposit documents, or other notification, shall be provided to the Defense Finance and Accounting Service for all deposits made to a base closure account. The deposit document or other notification shall identify the specific base closure account to which the deposit was made.

* d. A Defense Business Operations Fund Activity shall not request reimbursement, nor recover through increases in customer rates, for losses resulting from the disposal or divestiture of capital asset items that have not been fully depreciated at the time they are taken out of service due to base closure action. *

10. <u>Withdrawal of Appropriations and Reappropriations</u>

Dr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period
Cr 4580 Allotments Received

Dr 3211.1 Appropriations Available
Cr 1013 Funds With Treasury

Entry to record the withdrawal of appropriated and/or reappropriated capital from activity level. (This is an activity level entry only.)

Dr 4571 Allotments Issued - Direct Program - Current Period
Cr 4550 Internal Fund Distributions Received

Entry to record the withdrawal of appropriated and/or reappropriated capital from intermediate level. (This is an intermediate level entry only.)

Dr 4541 Allocations Issued - Direct Program - Current Period
Cr 4119 Other Appropriations Realized
Cr 4150 Other New Budget Authority
(that is, reappropriation)

Entry to record the withdrawal of appropriated and/or reappropriated capital from departmental level. (This is a departmental level entry only.)

11. Accumulated Operating Results, Residual Assets and Liabilities

a. Accumulated Operating Results. A Defense Business Operations Fund activity that is undergoing closure should request reimbursement for its recoverable costs from, as specified in paragraph D.4.; (1) customer accounts for costs attributable to normal day-to-day operations, (2) the account financing the closure for costs attributable to closure activity, and (3) transfer from the operations and maintenance appropriation of the DoD Component responsible for the activity for costs in the year of closure, including prior year losses, that are not associated with a valid work order or are as a result of other than a determination of a Base Closure and Realignment Commission that the activity be closed. All costs (including extraordinary losses), and all reimbursements (including extraordinary gains), flow through Net Operating Results to Accumulated Operating Results. Upon completion of all operations and all closure activity, the Accumulated Operating Results of the closed activity will have either a positive or a negative balance. There are two Accumulated Operating Results accounts -- Account 3311.1, "Cumulative Results of Operations - DBOF," and Account 3311.2, "Cumulative Results of Operations - DBOF - Deferred." The positive or negative balance of Accumulated Operating Results shall be initially recorded to general ledger account 3311.1. If any portion of the balance in general ledger account 3311.1 is deferred for recovery from, or return to, customers in the subsequent fiscal year stabilized rate or standard price development, that deferred amount shall be transferred to general ledger account 3311.2. Entries to general ledger account 3311.2 shall NOT be made unless authorized by the next higher command. Entries to this account should ultimately be traceable to specific direction received from the Office of the Under Secretary of Defense (Comptroller) to defer recovery or return of accumulated operating results. The following illustrates common entries to general ledger account 3311.2:

* Dr 3311.2 Cumulative Results of Operations - DBOF - Deferred
Cr 3311.1 Cumulative Results of Operations - DBOF

Entry to record a deferral of a negative accumulated operating results. (This entry must be supported by a specific authorization from the next higher command.)

Dr 3311.1 Cumulative Results of Operations - DBOF
* Cr 3311.2 Cumulative Results of Operations - DBOF - Deferred

Entry to record a deferral of a positive accumulated operating results. (This entry must be supported by a specific authorization from the next higher command.)
When an activity is closed, the positive (i.e., credit) or negative (i.e., debit) amounts in the Accumulated Operating Result Accounts (3311.1 and 3311.2) shall be distributed to either the DBOF business area level, or activity(ies) level as directed by the responsible DoD Component.

b. Residual Assets. Any financial assets (e.g., cash, receivables, and unobligated authority) that remain after the above actions shall remain in the Defense Business Operations Fund and are available to meet the overall requirements of the Fund or other obligational authority requirements as may be authorized.

c. Residual Liabilities. Any financial liabilities (e.g., payables and obligated authority) that remain after the above actions shall remain in the Defense Business Operations Fund.

E. ACTIONS AND RELATED ACCOUNTING PROCEDURES FOR TRANSFER OF FUNCTIONS. The following general actions and procedures shall be followed when transferring all or a portion of the functions from a DBOF activity to another DBOF activity or to an appropriation funded activity. Specific actions and procedures will usually be necessary to accommodate unique circumstances of the transferring activities.

1. Identify Functions to be Transferred, and the Disposition of any not Transferred. In the case of a partial transfer of functions, specific negotiations should take place between the affected organizations to identify specific functions that are to be transferred and the disposition of functions not transferred. Follow-on negotiations should identify and remedy any initial oversight, and specific directions should be provided once these follow-on actions are complete. All actions taken shall be consistent with the negotiated agreements. Pending final negotiations, all excluded functions will remain with the current organization.

2. Identify and Validate Physical, Financial, and Personnel Resources to be Transferred by the Losing Activity and any Split in Funding Responsibilities Incident to the Transfer. The organizations involved shall identify resources to be transferred incident to the functional transfer. Follow-on actions will identify resources not recognized in the original negotiations, and specific directions shall be provided commensurate with finalized agreements. All actions taken will be consistent with negotiated agreements.

3. Identify Any Interim Funding Method and Intended Duration. If an interim funding method is to be used to fund the transfer, pending resolution of other issues, determine the method and intended duration of the interim funding (funding provided by a locally established order should not exceed 30 days).

4. Validate Outstanding Orders and Dispose of General Ledger Account Balances. Determine validity of outstanding undelivered orders and determine if commodities or services on order remain a valid requirement of either the losing activity or the gaining activity and take actions necessary to cancel unneeded orders. Action must be taken to ensure that valid requirements are funded by the activity having the requirement. The resolution of these questions will assist in the subsequent disposition of general ledger account balances at the losing activity related to the functional transfer.

a. Budgetary Accounts. There should not be an automatic transfer of budgetary account balances from the losing activity to the gaining activity. Where items included in an existing obligation or order are for continuing services or other requirements of the transferred entity, an agreement must be negotiated between the losing and gaining activities. This agreement must specify whether accountability will remain identified to the losing activity, or if documents will be modified to reflect the gaining fund cite and paying office. In instances where accountability remains identified to the losing activity, a reimbursable support agreement will be negotiated, and accounting support will continue to be provided by the losing activity and paid for by the gaining activity. The following actions are needed for the transfer of outstanding commitments, obligations, and unfilled customer orders.

(1) Outstanding Commitments. Outstanding commitments for functions to be transferred from the losing activity should be canceled, but only when managed in coordination with the gaining activity to ensure that the procurement cycle is not interrupted. Concurrent with cancellation at the losing activity, the new commitment shall be entered into the accounting system by the gaining activity, and purchases under the document will reflect the gaining activity as the accountable entity. In those cases where cancellations of an outstanding commitment would unduly interrupt the purchase cycle, a reimbursable order from the gaining activity, citing gaining activity funding, shall be provided to the losing activity.

(2) Undelivered Orders/Outstanding Obligations. Undelivered orders and other outstanding obligations account balances shall not be transferred from the losing activity to the gaining activity without validation. All undelivered orders and other outstanding obligations directly related to functions transferring from the losing activity shall be reviewed, and decisions made on the appropriate disposition for each transaction. Undelivered orders and other outstanding obligations for items or services no longer required shall be canceled, and any termination costs which result from the cancellation shall be the responsibility of the losing activity. If outstanding obligations support a continuing need, that need may be filled through either a modification to the undelivered order or continued funding by the original ordering activity with reimbursement from the new requiring activity.

(3) Unfilled Customer Orders. Unfilled customer order account balances shall not be transferred from the losing activity to the gaining activity without validation. Unfilled customer orders citing current funding which are directly related to functions transferring from the losing activity

shall be reviewed to determine what orders for goods or services remain outstanding, and the activity responsible for providing these goods or services to the customer. If goods or services are to be provided by the gaining activity, reimbursement to the gaining activity may be provided through either an amendment to the unfilled customer order or through funding provided by the losing activity. If an unfilled customer order is amended, the losing activity, along with the gaining activity, must ensure that the customer is advised of this decision. If goods or services are to be provided by the losing activity, the losing activity will continue to bill the customer, and return any remaining unobligated balances to the customer after the order is completed.

b. Proprietary Accounts

(1) Actions and Related Procedures Required For the Transfer of Property. The following actions are required incident to the transfer of property (capital assets) from one DoD entity to another:

(a) Losing and gaining activities shall reach a preliminary agreement as to the specific property to be transferred. Ownership of selected assets, such as equipment, hardware, software, furniture, etc, necessary to the performance of the functions being transferred shall transfer to the gaining activity. Assets required exclusively in support of the function being transferred also shall be transferred to the gaining activity. Ownership of shared assets shall be determined based upon the preponderance of use. Accounting entries to remove capital assets from the accountable records of the losing activity must agree with the transfer of physical assets and support physical and financial accountability for the property transferred to the gaining activity.

(b) Conduct a joint inventory between representatives of the losing and gaining activity and mutually verify the availability and accuracy of fixed assets and related information of property scheduled for transfer. Fixed assets not transferred because of condition or unavailability will be disposed of and removed from the accountable records of the losing activity prior to transfer. After validation of assets to be transferred, a final listing shall be compiled showing all pertinent information for the assets agreed upon for transfer. The following entry will be made on the records of the losing activity to recognize fixed asset losses:

Dr 7210 Losses on Disposition of Assets
Dr 1759 Accumulated Depreciation on Equipment
    Cr 1750 Equipment

(c) Losing activities must provide copies of physical custody control records to gaining activities and prepare accountability transfer documents. The losing activity will provide the gaining activity copies of all Property Record Cards (or similar physical custody records) used to maintain physical control of each item included on the final listing of assets to be transferred. Transfer documents will be prepared concurrently to remove asset accountability from the records of the losing activity. A copy of each transfer document will be provided to the gaining activity to support the value of capital asset accountability to be established. The transfer document shall disclose, if known, the original acquisition cost and the accumulated

depreciation for items transferred. If those values are not known, the transfer value shall be the fair market value amount mutually agreed to by the losing and gaining activities. However, if those values are not known, such a transaction shall not create a financial gain or loss for the gaining or losing activity. Each transfer document will identify the losing and gaining activity, by name and Department of Defense Activity Address Code (DODAAC). The following entry will be made on the records of the losing activity to transfer accountability to the gaining activity:

Dr 3231 Transfer-Out to Government Agencies Without Reimbursement
Dr 1759 Accumulated Depreciation on Equipment
Cr 1750 Equipment

(d) Gaining activities must establish physical custody and control of assets transferred using copies of physical custody control records provided by the losing activities, and prepare accountability acceptance documents.

1 Establish Physical Custody/Accountability Records. Each gaining activity will prepare new property records (DoD Property Record (DD Form 1342)) for each item of equipment. Computer generation of DoD Property Records is authorized if the data elements are included in the same order as on the printed DD Form 1342. Official property custody records will be maintained by the gaining activity.

2 Notification to Property Control Offices. Specific categories of equipment and plant property are monitored and controlled by offices, other than the installation having ownership and physical custody of the item. Notification will be made to the following control offices consistent with the property control and management requirements of each applicable item:

Notify Defense Industrial Plant Equipment Center (DIPEC), Memphis, TN, for DIPEC controlled equipment items.

Notify Naval Facilities Engineering Command and the Navy Facility Assets Data Base (NFADB) for Navy real property item accountability changes such as buildings, etc.

Notify Military Traffic Management Command for railroad equipment.

Notify Plant Property Accounting Office/Activity and Transportation Equipment Management Center (TEMC) for industrial plant equipment items.

3 Establish Financial Accountability Records. Each gaining activity will receive a copy of all transfer documents from the losing activity to support the value of all capital asset accountability to be established. Each transfer document will identify the losing and gaining activities, both by name and DODAAC. Adequate controls must be established to ensure that proper accountability is maintained for all capital assets transferred to gaining activities. Those controls should provide, at a minimum, assurance that assets transferred and their values are consistent with and/or reconcilable to the joint inventory conducted between representatives of

the losing and gaining activity, copies of transfer documents received from the losing activity, and DoD Property Records (DD Form 1342) prepared by the gaining activity. The following entry will be made on the records of the gaining activity to transfer accountability from the losing activity:

Dr 1750 Equipment
  Cr 1759 Accumulated Depreciation on Equipment
  Cr 3220 Transfer-In From Others Without Reimbursement

Specific property items require custody accountability and control, but are not included in the financial records of the activity. Items in this category are those not meeting capitalization criteria, i.e., furniture, fixtures, and office equipment which cost more than $300 but less than the capitalization threshold; all equipment that is "classified" or "sensitive" which does not meet the capitalization threshold; and all equipment or items that are pilferable in nature and cost over $100 but less than the capitalization threshold.

(2) Actions and Related Procedures Required For the Transfer of Construction in Progress. Ownership of assets under development, e.g., physical assets, management initiatives or software under development, shall be transferred to the gaining activity where such efforts are directly related to the functions being transferred. The losing activity will credit the Construction In Progress account, and credit the equity account 3231, "Transfers-Out to Government Agencies Without Reimbursement," for the value of work completed to date. Concurrently, the gaining activity will record the same value as a debit to the Construction in Progress account and a credit to the equity account 3220, "Transfers-In from Others Without Reimbursement." Both of the transfer actions should occur in the same accounting period. The gaining activity will record the transaction based on notification by the losing activity or the designated liaison office. The capital budget authority of the gaining Defense Business Operations Fund activity will require appropriate adjustment for assets transferred during construction to ensure authority for the gaining activity to complete the asset.

(3) Actions and Related Procedures Required For the Transfer of Work in Process. Work in process for customers (unfilled customer orders) shall not be transferred from the losing activity to the gaining activity without validation. Unfilled customer orders citing current funding which are directly related to transferring functions shall be reviewed to determine what orders for goods or services remain outstanding, and the activity responsible for providing these goods or services to the customer. If the work in process is to be completed by the gaining activity, reimbursement to the gaining activity may be provided through either an amendment to the unfilled customer order or through funding provided by the losing activity. If an unfilled customer order is amended, the losing activity, along with the gaining activity, must ensure that the customer is advised of this decision. If the work in process is to be completed by the losing activity, the losing activity will continue to bill the customer, and return any remaining unobligated balances to the customer after the order is completed. Transactions outstanding prior to the transfer shall remain on the accounting records of the losing entity until completed, canceled, or reissued as a gaining activity responsibility.

(4) Actions and Related Procedures Required For the Transfer of Operating Materials and Supplies On Hand. The absolute value of operating materials and supplies for which accounting is to be transferred cannot reasonably be validated prior to transfer. Representatives from both the losing and gaining activity will jointly review the most current physical and financial reconciliation records available, and the schedule for future reconciliations. Concurrently, any apparent abnormal financial values, or financial transactions which appear abnormal, will be jointly reviewed and a consensus reached as to the reliability of records being transferred. Statistical sampling or other methods of verification should be used, as appropriate. It is imperative that records of accountability being transferred be as reasonably accurate as possible. Operating materials and supplies accounting transfers will be based upon the mutually validated on hand values of the accountable records of the losing activity. If accountability is to continue to be maintained using existing supply and financial records, the validation requirements detailed above remain the same. The losing activity will record the agreed upon inventory value as follows:

Dr 3231 Transfers Out to Government Agencies Without Reimbursement
Dr 7300 Extraordinary Items (Loss)
Cr 1511 Operating Materials and Supplies Held for Use
Cr 1512 Operating Materials and Supplies Held in Reserve for Future Use

The gaining activity will record the agreed upon inventory value as follows:

Dr 1511 Operating Materials and Supplies Held for Use
Dr 1512 Operating Materials and Supplies Held in Reserve for Future Use
Cr 3220 Transfers In from Others Without Reimbursement

(5) Actions and Related Procedures Required For the Transfer of Inventory In Transit. Inventory in transit is the value of items moving between a DoD supply activity and a contractor or other government supplier, or moving between storage locations within a DoD Component. Amounts posted to this account are based upon ownership acceptance, or payments made for materiel not yet physically received. Amounts recorded in this account are supported by individual documents evidencing the ownership acceptance or payment prior to receipt. As is the case with the inventory records, it is imperative that records supporting the transfer of accountability for inventory in transit be as accurate as possible. Where practical, each document should be reviewed for validity. Inventory in transit values transferred will be based upon the validated value of documents supporting inventory in transit values. In those instances where transactions are determined to be invalid, action should be initiated to adjust the accountable records of the losing activity. If accountability is to continue to be maintained using existing financial records, the validation requirements detailed above need not be performed. The losing activity will record the agreed upon inventory value as follows:

Dr 3231 Transfers Out to Government Agencies Without Reimbursement
Dr 7300 Extraordinary Items (Loss)
Cr 1525.1 Inventory in Transit from Procurement

The gaining activity will record the agreed upon inventory value as follows:

Dr 1525.1 Inventory in Transit from Procurement
Cr 3220 Transfers In from Others Without Reimbursement

(6) Actions and Related Procedures Required For the Transfer of Accounts Receivable. If accountability is to continue to be maintained by the gaining activity through use of existing financial records of the losing activity, the validation requirements detailed below need not be performed. However, if accounts receivable recorded in the records of the losing activity are to be jointly reviewed and validated by representatives of the losing and gaining activities, the accounts receivable values transferred will be based upon the mutually validated accounts receivable values. Action may be taken to terminate collection action and write off the debt when one or more of the following five criteria apply:

(a) The debt is without merit. In these cases, the debt was never owed in the first place and should not have been classified as a debt.

(b) The debt cannot be substantiated. In these cases, the activity does not have or cannot produce the evidence or witnesses necessary to validate a claim and has not been able to obtain the voluntary repayment of the debt.

(c) The costs of further collection action will probably exceed the amount which could be recovered.

(d) The activity is unable to locate the debtor and finds that either (a) there is no security to be liquidated to recover the amount owed, or (b) the statute of limitations has expired and the chances of recovering the debt do not justify retaining the debt as a receivable.

(e) The activity is unable to collect any substantial amount.

Further, debts due from the public that are $100,000 or more must be referred to the Department of Justice for concurrence in terminating collection action. If the Department of Justice concurs with the decision to terminate collection action on those debts, the debt may be written off. Adjustment amounts will be included on the accountable records of the losing activity.

(7) Actions and Related Procedures Required For the Transfer of Liabilities

(a) Accounts Payable. If accountability is to continue to be maintained by the gaining activity through use of existing financial records of the losing activity, the validation requirements detailed below need not be performed. However, if accounts payable recorded in the records of the losing activity are to be jointly reviewed and validated by representatives of the

losing and gaining activities, the accounts payable values transferred will be based upon the mutually validated accounts payable values. Appropriate action will be taken to adjust all transactions recorded as accounts payable which are determined to be no longer valid. Any adjustment amounts will be included on the accountable records of the losing activity.

(b) Accrued Payroll and Annual Leave Liability. The liability for accrued payroll and annual leave for employees transferring from a revolving fund activity becomes a liability to the gaining activity as of the date of the transfer. This liability will be recorded on the respective records in the appropriate equity and liability accounts. The losing revolving fund activity will provide a listing to identify individuals transferring and confirm the value of the leave liability of those employees. Regardless of the causative event, a revolving fund activity that loses employees through reorganization to an appropriation - financed activity shall transfer cash equal to the accrued payroll to the gaining appropriated fund activity and cash equal to the accrued annual leave value to the Treasury as miscellaneous receipts. A revolving fund activity that loses employees through reorganization to another revolving fund activity shall transfer cash equal to the accrued payroll and accrued annual leave value to that gaining revolving fund activity. If, however, cash or equivalent assets to finance accrued annual leave were not received by the losing revolving fund activity when employees previously were transferred in, the transfer of funds to miscellaneous receipts, or to the gaining Fund activity, shall be reduced by the amount of annual leave liability originally assumed by the Fund. (NOTE: The employees previously transferred in could have been transferred in years ago. The employees transferring out will likely be another group. It is not intended to match the specific employees, but only to avoid transferring funds for which previous payment had not been made.)

The losing revolving fund activity shall record the following:

Dr 2211 Accrued Payroll - Civilian
Dr 2215 Accrued Payroll - Funded Annual Leave - Civilian
Dr 2221 Accrued Annual Leave - Civilian - Unfunded
Cr 1012.1 Funds Disbursed - Operating - DBOF
Cr 3211.3 Liabilities Assumed (for annual leave)

Entry to transfer accrued payroll and annual leave of a Fund activity.

The gaining activity, to the extent that payment is not received, shall record the following:

Dr 3211.3 Liabilities Assumed
Cr 2211 Accrued Payroll - Civilian
Cr 2221 Accrued Annual Leave - Civilian - Unfunded

Entry to record liability associated with personnel transfers when payment does not accompany the liability transfer.

However, the gaining activity entry to record initial liabilities, to the extent that payment is received is:

Dr 1011.1 Funds Collected - Operating Program - DBOF
Cr 2211 Accrued Payroll - Civilian
Cr 2215 Accrued Payroll - Funded Annual Leave - Civilian

Entry to record liability associated with personnel transfers when payment accompanies the liability transfer.

(8) Actions and Related Procedures Required For the Transfer of Equity. An increase to equity is recognized when an activity operating within the Fund receives an asset which will not require the use of available resources to finance the item. Conversely, a decrease to equity is recognized each time an activity receives a liability (e.g., accounts payable and unfunded annual leave) from another activity for which payment in the form of cash or other assets is not provided. Entries vary depending on what is being transferred. Various situations have been covered in the preceding paragraphs detailing transactions that impact equity.

5. Determine New Fund Citation, and New or Revised Data Structure

a. New Fund Citations. A fund citation must be used on all accounting documents. To permit continued operation of transferred functions by the gaining activity, the gaining activity will ensure that the proper fund code is provided to those installations transferring to its command and that instructions for preparation of requisitions are provided sufficient to ensure billing to the proper accountable activity. The fund citations provided must include the applicable accounting classification code, and must also identify any applicable fund code(s), either system unique, or DoD wide, or both. All obligating documents such as contracts, small purchase actions, travel orders, training requests, and requisitions prepared for purchase of materiel from the military supply system or the General Services Administration shall cite the gaining activity accounting classification code.

b. Department of Defense Activity Address Codes (DODAACs) and/or Unit Identification Codes (UICs). A DODAAC is the DoD equivalent of a Social Security Number. A DODAAC is used to identify a DoD installation (or, in some instances, components thereof) for purposes of mail and communications, shipment of materiel, or billing for assets issued from the DoD military supply system. DODAAC assignments are controlled by each of the DoD Components; however, they are centrally maintained and distributed to the DoD Components by the Defense Automatic Addressing Systems Office to ensure total system visibility. The DODAAC (in Navy terms the Unit Identification Code [UIC]) is required on Military Standard System requisition documents to ensure compatibility with the logistics management systems. These requisition documents become obligating documents and are the basis for creation of other logistics and financial documents. The circumstance of each transfer action may require identification of the transferred or consolidated segment of the losing activity as a new entity. In such cases, new DODAACs will be established and distributed to applicable activity personnel to ensure the proper preparation and subsequent processing of transactions for accounting and reporting.

Concurrently, each transfer will be evaluated to ensure that all Service Code assignments, fund code assignments, routing identifier codes, and all other Military Standard supply and financial systems codings have been established consistent with the transfer status of the new entity.

6. Other Actions Required to Accomplish the Accounting Transfer

a. Validate Reimbursable Agreements and Ensure Funding by Applicable Requiring Entity. Reimbursable agreements may exist between the losing installation and other entities for the provision or receipt of services and other support. It is essential that such reimbursable agreements be identified and that the gaining activity and the providing or receiving entity negotiate Intra-Service Support Agreements (ISAs) or Service Support Agreements (SSAs) to define reimbursable services and support to be provided and received.

b. Payroll. The transfer of payroll processing will normally be accomplished either at the beginning of a pay period or at the beginning of a fiscal year. Whenever payroll transfers occur, an agreement will be negotiated between the activities as to the date to be used for transfer. The losing activity is responsible for the salary and benefits of all transferring employees through the agreed upon transfer date. The losing activity also will be responsible for payment in the form of cash or other assets for any unused compensatory time, and merit pay bonuses earned by transferring employees for the fiscal year.

c. Travel in Process. Travel advances and outstanding travel obligations for travel which has occurred, or is in process, shall remain with the losing activity pending settlement. Only travel for transferring activity personnel begun after the effective date of the transfer will be an obligation of the gaining activity. The losing and gaining activity shall jointly review outstanding travel documents and deobligate those no longer valid. Where temporary duty (TDY) begins before and ends after the effective transfer date, travel documents will contain fund citations (and appropriate estimates) to ensure payment of travel costs commensurate with the duty station of the individual during each of the travel periods. Separate travel documents for each period are recommended. Copies of all related travel documents will be provided to both the losing and gaining activities to ensure proper processing. The losing activity will prepare the travel order, and make appropriate disbursements. Amounts charged to the gaining activity will be processed as a Transaction for Others or other agreed-upon procedures by the losing activity. Losing activities will always obtain authority to cite gaining activity funding on travel orders.

d. Contractor Payments. A contract modification must be sent to contractors, under normal change procedures, for each contract for which the responsibility for contract payment is transferred. This is necessary to advise the contractor of a change in paying office.

e. Internal Control. The gaining activity will develop procedures to control and manage the required accounting and system changes. Account control totals and other internal control mechanisms shall be developed and used to insure that accounting integrity is maintained.

f. Reporting. The gaining activity will, in order to continue the reporting function in an efficient and effective manner, provide specific instructions to new organizational elements transferred to it including points of contact, office symbols and phone numbers.

DEPARTMENT OF DEFENSE

DEFENSE BUSINESS OPERATIONS FUND

CHARTER

1. AUTHORITY

The Defense Business Operations Fund (hereafter, "Fund"), a working capital fund, was established, effective October 1, 1991, under the authority of section 2208 of Title 10, United States Code. Operations of the Fund will be conducted in accordance with applicable Department of Defense policies and regulations. The Treasury Account Symbol authorized by the Department of the Treasury for use by the Fund is 97X4930.

2. BUSINESS OPERATION ACTIVITIES

Department of the Army, Department of the Navy, Department of the Air Force, and Defense Agency activities may be included within the Fund. Each Fund activity, or group of Fund activities, shall be under the management control of a designated agency. The Fund activities and the designated management control agencies are listed in supplemental provisions to this Charter.

3. MISSION

The Fund provides for improved financial management tools for the allocation of resources to support activities through an application of a businesslike buyer/seller approach using revolving fund principles. The Fund should encourage more efficient and effective delivery of support to the operational commander through economical buying and cost conscious decisions. This mission should be achieved through the DBOF Corporate Board process.

4. CUSTOMERS

The Fund provides to the customers authorized products, materials, and services to the Military Departments and the Defense Agencies on a reimbursable basis. The authorized products, materials, and services may be furnished to agencies of other government departments or instrumentalities and to authorized private concerns and other agencies as are authorized by law. The customer has the ability to influence the level, quality and delivery speed of the support required to ensure that the Department's readiness posture is maintained.

5. SUPPLEMENTAL PROVISIONS

Supplemental provisions, by business area, are part of this charter. Supplemental provisions may be added, removed, or revised following review by the Corporate Board. The supplemental provisions shall include, at a minimum, information relative to each business operations activity included within the Fund. The information may include a mission statement for the business operation area, identification of the business operation management command, listing of specific activities included within the business operation area, working capital provided to commence and continue operations under the Fund, and identification of any authorized exceptions to Defense policies and guidance.

6. WORKING CAPITAL

Working capital transferred to each business area on, or after, October 1, 1991, establishes the initial corpus of each business area. The amount of working capital transferred with each business operation area is included in the supplemental provisions to this Charter and permanently defines its initial working capital corpus.

Submitted by: ______________________________

Under Secretary of Defense (Comptroller)

Approved: ______________________________

Deputy Secretary of Defense

DEPARTMENT OF DEFENSE

DEFENSE BUSINESS OPERATIONS FUND

SUPPLEMENTAL PROVISIONS TO CHARTER

(TITLE OF BUSINESS AREA)

or

(NAME OF BUSINESS OPERATION ACTIVITY)

1. AUTHORITY

The (NAME OF BUSINESS OPERATIONS FUND BUSINESS AREA OR ACTIVITY), a working capital fund activity, is established, effective ___(DATE)___, under the authority of section 2208 of Title 10, United States Code. Operations of the activity will be conducted in accordance with applicable Department of Defense policies and regulations. The Treasury Account Symbol authorized by the Department of the Treasury for use by the (NAME OF FUND ACTIVITY) is 97X4930.xxxx.

2. MISSION

(Provide a brief statement of the mission of the activity.)

3. MANAGEMENT COMMAND

(Provide the name and location of the Management Command and a statement as to whether, and to what extent, the Management Command is funded by the Defense Business Operations Fund.)

4. (NAME OF BUSINESS AREA) ACTIVITY COMPOSITION

(This section applies when the supplemental provisions apply to a DoD Component Business Area consisting of multiple Fund activities. In those instances, provide a listing of each activity included within the DoD Component business area and each activity's location, as follows:)

Activity	Location
(Name of Activity)	(City and State)

5. AUTHORIZED EXCEPTIONS

(Specify any policy exceptions authorized for the business area or any activity included within the business area--if none, so state.)

6. WORKING CAPITAL AND EQUITY

Working capital and equity available to the (NAME OF BUSINESS AREA OR ACTIVITY) as of ___(DATE)___ is composed of the following elements:

Add:	Fund Balance With Treasury	$xxxxx
Add:	Accounts Receivable (net)	$xxxxx
Add:	Work in Process and Inventory for Sale	$xxxxx
Less:	Accounts Payable	$xxxxx
Equals:	Working Capital	$xxxxx
Add:	Fixed Assets	$xxxxx
Add:	Other Assets	$xxxxx
Add:	Operating Materials and Supplies	$xxxxx
Less:	Other Liabilities	$xxxxx
Equals:	Equity	$xxxxx

Submitted by: ______________________________

(Title of Submitting Official)

Approved: ______________________________

Under Secretary of Defense (Comptroller)

DOD BASE CLOSURE ACCOUNT FINANCIAL PLAN		SERVICE: FISCAL YEAR OF APPROPRIATION: (Dollars, in Thousands)			SUBMISSION NO. As of:	
INSTALLATIONS/PROJECT(S)	PROGRAM AMOUNT	CHANGE AMOUNT	PREVIOUSLY APPROVED	PROPOSED	QT	OSD APPROVED
(a)	(b)	(c)	(d)	(e)	(f)	(g)
A. Military Construction						
1. Construction						
a. (Project)						
b. (Project)						
2. Planning and Design						
B. Family Housing						
1. Construction						
a. (Project)						
b. (Project)						
2. Planning and Design						
3. Operations						
C. Operation and Maintenance (O&M)						
1. Civilian Severance Pay						
2. Civilian PCS						
3. Transportation of Things						
4. Real Property Maintenance						
5. Program Management						
D. Environmental						
E. Community Programs						
1. Community Planning						
2. Economic Assistance						
F. Federal Agencies						
G. Military Personnel						
H. Procurement-type Items						
I. Other						

CHAPTER 52

BUDGETARY RESOURCES

A. APPROPRIATIONS RECEIVED

1. Purposes of Appropriations. An appropriation is an authorization by an act of Congress that permits agencies to incur obligations and to make payments out of the U.S. Treasury for specified purposes. The Defense Business Operations Fund (DBOF) may receive appropriations for two general purposes--to provide working capital, and to provide financing for specific projects or tasks.

2. Receipt and Allocation of Appropriations. The receipt of an appropriation or reappropriation is recorded at the Departmental level only. The allocation, if any, of the appropriation or reappropriation is recorded at the intermediate and activity level as appropriate. While similarities in accounting for appropriations received for the two general purposes outlined above exist, differences must be accommodated. Basically, the receipt and allocation of appropriations are accounted for in the same way; however, accounting for the use of appropriations may differ.

a. Departmental Level Entries

Dr 4119 Other Appropriations Realized
  Cr 4620 Other Funds Available for Commitment/Obligation 1/

Dr 1013 Funds With Treasury
  Cr 3211.1 Appropriations Available

Entry to record receipt of an appropriation. The source document for the budgetary account posting is the OMB appropriation apportionment--DD Form 1105, "Apportionment and Reapportionment Schedule." The source document for the proprietary account posting is the Treasury Warrant--TFS Form 6200, "Department of the Treasury Appropriation Warrant." (This is a departmental level entry only.)

Dr 4620 Other Funds Available for Commitment/Obligation 1/
  Cr 4541 Allocations Issued - Direct Program - Current Period

Dr 3211.1 Appropriations Available
  Cr 1013 Funds With Treasury

Entry to record obligational authority allocated to intermediate or activity level.
(This is a departmental level entry only.)

1/ Apportioned business areas (for example, supply management) shall use GLA 4440, "Revolving Funds Available for Apportionment," rather than GLA 4620, "Other Funds Available for Commitment/Obligation."

b. Intermediate (Command) Level Entries

Dr 4550 Internal Fund Distributions Received
Cr 4561 Unallotted Allocations - Direct Program - Current Period

Dr 1013 Funds With Treasury
Cr 3211.1 Appropriations Available

Entry to record receipt of obligational authority allocated from departmental level. (This is an intermediate level entry only, for example, the U.S. Transportation Command.)

Dr 4561 Unallotted Allocations - Direct Program - Current Period
Cr 4571 Allotments Issued - Direct Program - Current Period

Dr 3211.1 Appropriations Available
Cr 1013 Funds With Treasury

Entry to record obligational authority allocated to activity level. (This is an intermediate level entry only.)

c. Installation (Performing) Level Entries

Dr 4580 Allotments Received
Cr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period

Dr 1013 Funds With Treasury
Cr 3211.1 Appropriations Available

Entry to record receipt of obligational authority allotted from Departmental or intermediate level. (This is an activity level entry only.)

B. APPROPRIATIONS FOR TRANSPORTATION MOBILIZATION REQUIREMENTS

Because a capability must be maintained by the United States Transportation Command (USTRANSCOM) DBOF Transportation business area to expeditiously respond to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition, direct appropriation funding may be provided to the Air Mobility Command (AMC) and to the Military Traffic Management Command (MTMC) as follows:

1. Air Mobility Command (AMC). Airlift flying hours and associated costs are based on the requirement to maintain the capability of the airlift system, including crew training (and concurrent mobilization) requirement. The airlift system training generated capacity is used by the Department of Defense to move air eligible cargo and passengers. In order to extend air eligibility and increase capacity utilization, rates are generally established to be competitive with commercial airlift carriers. However, due to the mobilization requirement,

the resulting revenue does not cover the full costs of airlift operations. This requirement will be recorded/budgeted as follows:

a. The costs for military personnel will be recorded (at the civilian equivalency rate) in accordance with the policy on Military Personnel Expense in Chapter 63, "Expenses," of this Volume. Military personnel within the Air Mobility Command will be direct funded by the Military Personnel appropriation. Although the cost shall be recorded as a DBOF cost, it shall be recorded so that it is not required to be recovered in customer rates. Accounting policy for military personnel expense is in Chapter 63, "Expenses," of this volume. Financial reporting of military personnel expense is reported on Part V, "Recoverable Operating Results," of the DBOF monthly (AR 1307) Statement of Operations as provided for in Chapter 70 of this volume.

b. The balance of the mobilization requirement costs will be funded through a direct appropriation to the Air Force and will be placed as an order with the DBOF. This will assure that revenue is reflected to offset the costs.

2. <u>Military Traffic Management Command (MTMC)</u>. The MTMC shall plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. The costs of RIC will be funded by the Army Operation and Maintenance appropriation. *

C. USE OF AN APPROPRIATION

1. <u>For Working Capital</u>. Appropriations may be provided for working capital purposes such as when the accumulated operating results and/or the cash position is either negative or approaching negative or for other purposes. In those instances, the cash outlays and obligations may have previously occurred and the appropriation may therefore provide financing after the fact. The receipt of the appropriation provides an immediate infusion of cash and is accounted for as illustrated above. However, the use of the appropriation must be accounted for and reflected on accounting records and financial reports. The accounting entries to accomplish those results are:

Dr 3211.1 Appropriations Available
    Cr 5700 Appropriated Capital Used

NOTE: GLA 5700, "Appropriated Capital Used," is a revenue account and is closed to GLA 3321, "Net Results of Operations-DBOF."

and

Dr 4611 Uncommitted/Unobligated Allotments
    - Direct Program - Current Period
    Cr 4614 Uncommitted/Unobligated Allotments
        - Reimbursable Program - Current Period

Entry to record, in proprietary accounts, the use of appropriated capital and, in budgetary accounts, the availability for reimbursable program obligations. As a rule, the total amount of the appropriation shall be recognized as used. However, if the amount of the appropriation is in

excess of negative net and accumulated operating results, the amount of the appropriation used shall only be the amount sufficient to bring the total of accumulated operating results and net operating results to a zero dollar ($-0-) position. In that case, the remainder of the appropriation shall be used to offset subsequent year net operating losses to the extent they occur and the remaining amount of the appropriation is sufficient.

2. For Specific Projects/Tasks. An appropriation may be provided for specific projects or tasks. An example is an appropriation provided to finance costs of the U.S. Transportation Command for emergency or humanitarian transportation costs. Another example is an appropriation provided to finance Defense Commissary Agency operating costs. In these situations, the entity receiving the appropriation must act as BOTH the customer (financing) activity and the performing activity and record entries necessary to account for both. Entries are necessary to record (a) issuance of a reimbursable order from the financing account, (b) receipt of the order in the performing account, and (c) recognition of obligations and expenses in the performing account and, upon completion of the order, (d) recognition of reimbursements earned (revenue) in the performing account, and simultaneously with recognition of reimbursements earned, (e) expenditure of the financing account. The accounting entries to accomplish those results are:

a. Issuance of a Reimbursable Order from the Financing Account

Dr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period
Cr 4810 Undelivered Orders-Direct Program

b. Receipt of the Order in the Performing Account

Dr 4581 Automatic Reimbursement Program
Dr 4231 Unfilled Customer Orders - Without Advance - Automatic Apportionment
Cr 4221 Customer Orders Accepted - Automatic Apportionment
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

c. Recognition of Obligations and Expenses in the Performing Account

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period
Cr 4821 Undelivered Orders - Without Advance - Reimbursable Program
Cr 4920 Accrued Expenditures - Unpaid - Reimbursable Program
Cr 4941 Accrued Expenditures - Paid - Reimbursable Program

Dr 6111 Personnel Compensation-Civilian
Dr 6121 Supplies and Materials
Dr 6125 Depreciation of Equipment
Dr 61XX (Other Operating/Program Expenses)

Cr 2113 Accounts Payable-Public
Cr 1530 Operating Materials and Supplies
Cr 1759 Accumulated Depreciation on Equipment
Cr 2110 Accounts Payable
Cr 1012 Funds Disbursed

d. Recognition of Reimbursement Earned (Revenue) in the Performing Account

Dr 4253 Reimbursements Earned - Collected - Automatic Apportionment
Cr 4231 Unfilled Customer Orders - Without Advance - Automatic Apportionment

Dr 3211.1 Appropriations Available
Cr 5700 Appropriated Capital Used

NOTE: GLA 5700, "Appropriated Capital Used," is a revenue account and is closed to GLA 3321, "Net Results of Operations-DBOF."

e. Recognition of Expenditure of the Financing Account

Dr 4811 Undelivered Orders - Without Advance - Direct Program
Cr 4931 Accrued Expenditures - Paid - Direct Program

3. Accounting Illustration. Addendum 1, "Accounting Illustration for Use of an Appropriation Received within the Defense Business Operations Fund," provides further guidance, through use of a simplified illustration, on the proprietary accounting entries applicable to the concepts in this section.

D. BUDGETARY RESOURCES

1. Apportionment of Authority. An apportionment is a distribution made by the Office of Management and Budget of amounts available for obligation in an appropriation or fund account. Apportionments generally divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred. The apportionment process is intended to achieve the most effective and economical use of amounts made available for obligation and to prevent the obligation of amounts available within an appropriation or fund account in a manner that would require deficiency or supplemental appropriations. In this regard obligations may not be incurred in excess of the amount of budget authority apportioned. Obligations may be incurred only upon receipt of obligation authority. However, the apportionment process limits the amount of obligations that may be incurred even though obligation authority would otherwise be available. The reimbursable program of the Defense Business Operations Fund is apportioned. However, it may be apportioned in one of two ways. Those two ways are: (a) automatically apportioned meaning that the total amount of obligation authority available may be obligated upon its becoming available and (b) specifically apportioned meaning that the amount of obligations that may be

incurred is limited to the specified apportioned amount. The accounting entries for each apportionment method is shown below:

a. Automatically Apportioned Reimbursable Program

Dr 4212 Anticipated Reimbursements - Automatic Apportionment
Cr 4518 Unallocated Apportionment - Reserve for Anticipated Resources - Automatically Apportioned

Entry to record amount of anticipated reimbursements expected to be earned by DBOF activities during the current fiscal year. (This is a departmental level entry only. The automatically apportioned reimbursable program requires no intermediate or activity level entries as the authority to incur obligations is automatic upon receipt of obligation authority.)

Dr 4518 Unallocated Apportionment - Reserve for Anticipated Resources - Automatically Apportioned
Cr 4212 Anticipated Reimbursements - Automatic Apportionment

Entry to record amount of anticipated reimbursements realized by DBOF activities during the current fiscal year. (This is a departmental level entry only.)

b. Specifically Apportioned Reimbursable Program

Dr 4211 Anticipated Reimbursements - Specific Apportionment
Cr 4440 Revolving Funds Available for Apportionment

Entry to record a request for apportionment of anticipated reimbursements forwarded to the OMB. The documentation supporting this entry is a DD 1105, "Apportionment and Reapportionment Schedule." (This is a departmental level entry only.)

Dr 4440 Revolving Funds Available for Apportionment
Cr 4514 Unallocated Apportionment - Reimbursable Program - Current Period

Entry to record receipt of the approved apportionment request. The documentation supporting this entry is an approved DD 1105, "Apportionment and Reapportionment Schedule." (This is a departmental level entry only.)

Dr 4514 Unallocated Apportionment - Reimbursable Program - Current Period
Cr 4543 Allocations Issued - Reimbursable Program - Current Period

Entry to record allocations issued. The documentation supporting this entry is an approved allocation document. (This is a departmental level entry only.)

Dr 4550 Internal Fund Distributions Received
    Cr 4563 Unallotted Allocations - Reimbursable Program - Current Period

Entry to record allocations received. The documentation supporting this entry is an approved allocation document. (This is an intermediate level entry only.)

Dr 4563 Unallotted Allocations - Reimbursable Program - Current Period
    Cr 4573 Allotments Issued - Reimbursable Program - Current Period

Entry to record allotments issued. The documentation supporting this entry is an approved allotment document. (This is an intermediate level entry only.)

Dr 4580 Allotments Received
    Cr 4582 Allotted Reimbursable Program - Current Period

Entry to record allotments received. The documentation supporting this entry is an approved allotment document. (This is an activity level entry only.)

2. Customer Orders. Customer orders received are requisitions and other orders accepted for items to be furnished on a reimbursable basis. The amount of budgetary resources available for obligation from customer orders is the sum of:

(1) Orders received from federal government accounts that represent valid obligations of the ordering account, whether or not accompanied by an advance, plus

(2) Orders received from the public, including State and local governments, but only to the extent accompanied by an advance.

Throughout the year, unfilled customer order amounts should be adjusted to the extent that orders are filled, canceled, or new orders received. The accounting entries to record acceptance of customer orders are:

Dr 4581 Automatic Reimbursement Program
Dr 4231 Unfilled Customer Orders - Without Advance - Automatic Apportionment

or

Dr 4233 Unfilled Customer Orders - With Advance - Automatic Apportionment
    Cr 4221 Customer Orders Accepted - Automatic Apportionment
    Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Entry to record acceptance of a customer order when the reimbursable program is automatically apportioned.

Dr 4582 Allotted Reimbursable Program - Current Period
Dr 4232 Unfilled Customer Orders - Without Advance - Specific Apportionment
or
Dr 4234 Unfilled Customer Orders - With Advance - Specific Apportionment
Cr 4222 Customer Orders Accepted - Specific Apportionment
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Entry to record acceptance of a customer order when the reimbursable program is specifically apportioned.

3. Earned Reimbursements. Earned reimbursements are the amount of customer orders that have been filled, provided that in the case of orders from the public, including State and local governments, the amount is limited to the amount of the advance received. Earned reimbursements should not exceed the amount of individual customer orders. The amount of budgetary resources available for obligation from earned reimbursements can be calculated as the sum of:

a. Customer orders from federal government accounts that have been filled but not yet billed;

b. Accounts receivable representing federal government customer orders that have been filled but not collected.

c. Cash received as advances from the public for customer orders that have been filled; and

d. Cash received as reimbursement for federal government customer orders that have been filled.

4. Nonexpenditure Fund Transfers. Nonexpenditure transfers of funds may be received from another appropriation or fund or may be made to another appropriation or fund when appropriate and authorized. Typical budgetary and proprietary accounting entries applicable to transfer of budgetary resources to and from other appropriations and funds are illustrated below.

Transfers Out of Budgetary Resources

Dr 4514 Unallocated Apportionment - Reimbursable Program (or, if automatically apportioned)
Dr 4212 Anticipated Reimbursements - Automatic Apportionment
Cr 4160 Anticipated Transfers of Current Fiscal Year Authority

Entry to record an anticipated transfer from a business operations fund to another appropriation or fund. (This is a departmental level entry only.)

Dr 4160 Anticipated Transfers of Current
Fiscal Year Authority
Cr 4170 Appropriation Transfers

Entry to record an authorized transfer from a business operations fund to another appropriation or fund. Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization." (This is a departmental level entry only.)

Dr 4614 Uncommitted/Unobligated Allotments -
Reimbursable Program - Current Period
Cr 4581 Automatic Reimbursement Program

Dr 3211.4 Net Treasury Balance - DBOF
Cr 1013 Funds With Treasury

Entry to record a reduction of unobligated business operation fund resources due to an authorized transfer from a business operations fund to another appropriation or fund. (This is an activity level entry only.)

Transfers In of Budgetary Resources

Dr 4160 Anticipated Transfers of Current
Fiscal Year Authority
Cr 4517 Unallocated Apportionment - Reserve for Other
Anticipated Resources

Entry to record an anticipated transfer from another appropriation or fund to a business operations fund. (This is a departmental level entry only.)

Dr 4170 Appropriation Transfers
Cr 4160 Anticipated Transfers of Current
Fiscal Year Authority

Dr 1013 Funds with Treasury
Cr 3211.4 Net Treasury Balance - DBOF

Entry to record an authorized transfer from another appropriation or fund to a business operations fund. Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization." (This is a departmental level entry only.)

Dr 4517 Unallocated Apportionment - Reserve for Other
Anticipated Resources
Cr 4543 Allocations Issued - Reimbursable Program

Dr 3211.4 Net Treasury Balance - DBOF
Cr 1013 Funds with Treasury

Entry to record obligational authority allocated. Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization." (This is a departmental level entry only.)

Dr 4581 Automatic Reimbursement Program
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Dr 1013 Funds With Treasury
Cr 3211.4 Net Treasury Balance - DBOF

Entry to record receipt of obligational authority transfer to the business operations fund from another appropriation or fund. (This is an activity level entry only.)

E. WITHDRAWAL OF BUDGETARY RESOURCES

The following illustrate typical budgetary and proprietary accounting entries applicable to the withdrawal of budgetary resources from the Defense Business Operations Fund.

Dr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period
Cr 4580 Allotments Received

Dr 3211.1 Appropriations Available
Cr 1013 Funds With Treasury

Entry to record the withdrawal of appropriated and/or reappropriated Fund capital from activity level. (This is an activity level entry only.)

Dr 4571 Allotments Issued - Direct Program - Current Period
Cr 4550 Internal Fund Distributions Received

Entry to record the withdrawal of appropriated and/or reappropriated Fund capital from intermediate level. (This is an intermediate level entry only.)

Dr 4541 Allocations Issued - Direct Program - Current Period
Cr 4119 Other Appropriations Realized

Entry to record the withdrawal of appropriated Fund capital from departmental level. (This is a departmental level entry only.)

F. ANTIDEFICIENCY ACT VIOLATIONS

1. Budgetary Resources. A distinction is made between those assets that constitute a budgetary resource available for obligation and those that do not. Paragraph C. of this chapter describes assets that are budgetary resources available for obligation. Other assets, whether of a working capital nature such as inventories of stock or of a fixed asset nature, are not considered a

budgetary resource. Anticipated reimbursements and anticipated customer orders for the remainder of the fiscal year are not considered a budgetary resource. Such non-budgetary assets, therefore, do not enter into the determination of unobligated balances. However, claims against budgetary resources, such as accounts payable and undelivered orders must enter into the determination of unobligated balances. Obligations for the procurement of inventories, as well as for the acquisition of other assets, must be included in the obligations reported.

2. Apportioned Budgetary Resources. Many of the business areas included within the Defense Business Operations Fund are not subject to apportionment. However, some business areas, such as the Supply Management business area and Defense Commissaries may receive an apportionment. The Supply Management business area may receive a DD Form 1105, "Apportionment and Reapportionment Schedule," for contract authority received for its general operations. Additionally, a DD Form 1105 apportionment may be received for direct appropriations received (for example, appropriations received to procure war reserve materials and operate Defense Commissaries). If an apportionment is received, obligations must be kept within the apportioned limits even though the amount apportioned may be less than the total budgetary resources that would otherwise be available. Failure to do so is a violation of the Antideficiency Act (31 U.S.C. 1517(a)).

3. Segregation of Budgetary Resources. Where an activity receives budgetary resources from more than one source (that is, reimbursable authority from customer orders accepted and direct authority from appropriations), the receiving activity must maintain records which will enable it to control and report separately the transactions relating to each source.

4. Meaning of Violations. The incurring of obligations in excess of available budgetary resources is a violation of the Antideficiency Act and is reportable as such whether or not, in the case of apportioned DBOF business areas, unapportioned budgetary resources or non-budgetary assets are greater than the amount of the deficiency. Additionally, for the Defense Business Operations Fund, disbursements (outlays) in excess of the fund balance (cash) available to the DoD Component's DBOF business area [see Chapter 54, paragraph B.5. of this Volume].

5. Responsibility for Violations. It is the responsibility of each DBOF activity to maintain obligations within the amount of budgetary resources available to that DBOF activity. In the event that available budgetary resources are not sufficient, the DBOF activity shall defer the incurring of obligations until budgetary resources are sufficient to fund them. As a rule, DBOF managers shall not assume that sufficient budgetary resources exist elsewhere within the DBOF to fund obligations rather, managers of a DBOF activity shall request authority to incur obligations from its management command or responsible DoD Component.

6. Types of Violations. Antideficiency Act violations are comprised of events of the following character:

a. Overobligation or overexpenditure of appropriation or fund balance. (Section 1341(a) of Title 31 of the U.S. Code)

b. Contract or obligation in advance of an appropriation. (Section 1341(a) of Title 31 of the U.S. Code)

c. Acceptance of voluntary services. (Section 1342 of Title 31 of the U.S. Code)

d. Overobligation or overexpenditure of an apportionment or reapportionment. (Section 1517(a) of Title 31 of the U.S. Code)

e. Overobligation or overexpenditure of an allotment or suballotment. (Section 1517(a) of Title 31 of the U.S. Code)

f. Overobligation or overexpenditure of a credit limitation. (Section 1517(a) of Title 31 of the U.S. Code)

g. Overobligation or overexpenditure of other administrative subdivisions of funds. (Section 1517(a) of Title 31 of the U.S. Code)

7. Reporting of Violations. Volume 14 of this Regulation specifies the procedures to be followed to report Antideficiency Act violations.

ACCOUNTING ILLUSTRATION

APPROPRIATED CAPITAL USED

A. GENERAL

1. The Defense Business Operations Fund is a revolving fund. As such, it primarily operates through obligational authority and funds provided by the receipt and completion of reimbursable orders. However, the Defense Business Operations Fund can, and does, receive direct appropriations.

2. Revenue and expenses associated with reimbursable orders must be matched and reported on the Statement of Operations (Income Statement). Likewise, an appropriation is a financing source against which expenses must be matched and reported on the Statement of Operations. To accomplish this requirement, general ledger account 5700 has been established. Account 5700, "Appropriated Capital Used," a credit balance account, is a financing source to be matched against current period expenses funded by appropriations. This account is used to record accrued expenses (versus outlays) of appropriated funds and is therefore equal to expenses funded by current and prior year appropriations such as depreciation of fixed assets and consumption of operating materials and supplies purchased in a prior year.

3. Budgetary accounting for appropriations is well-established. However, since proprietary accounting, using general ledger account 5700, is relatively new, the following simplified illustration provides an explanation, in accounting terms, of the accounting necessary to properly recognize revenue and associated costs applicable to an appropriation (vice customer reimbursements).

B. TREASURY APPROPRIATION WARRANT RECEIVED

Dr 1013 Funds with Treasury	$100,000	
Cr 3211.1 Appropriations Available		$100,000

To record appropriated funds availability upon receipt of TFS Form 6200, "Department of the Treasury Appropriation Warrant." (A warrant is an official document issued pursuant to law by the Secretary of the Treasury that establishes the amount of money authorized to be withdrawn from the central accounts maintained by the Treasury.)

C. APPROPRIATION OUTLAYS

Dr 1511 Operating Materials and Supplies	$10,000	
Cr 1012 Funds Disbursed		$10,000

To record outlay of appropriated funds for supplies.

Dr 1750 Equipment	$60,000	
Cr 1012 Funds Disbursed		$60,000

To record outlay of appropriated funds for an equipment item. (Assume item cost $60,000 with a 5-year life. The monthly depreciation, assuming no residual value, would therefore be $1,000.)

D. RECOGNITION OF ACCRUED EXPENSES

Dr 6111 Personnel Compensation - Civilian	$5,000	
Cr 2113 Accounts Payable - Public		$5,000

To record accrued civilian salaries.

Dr 6121 Supplies and Materials	$1,500	
Cr 1511 Operating Materials and Supplies		$1,500

To record use of supplies

Dr 6125 Depreciation of Equipment	$1,000	
Cr 1759 Accumulated Depreciation on Equipment		$1,000

To record monthly equipment depreciation.

E. REDUCTION OF APPROPRIATED CAPITAL (ACCOUNT 3211.1). The amounts to be recorded in account 5700 shall be equal to the amount of operating and program expenses recorded in the 6100 series of accounts but shall not include any expenses applicable to other revenue accounts. In the above illustration, expenses recorded in the 6100 series of accounts total $7,500.

The following entry illustrates the use of this account:

Dr 3211.1 Appropriations Available	$7,500	
Cr 5700 Appropriated Capital Used		$7,500

To record appropriated funds used to finance accrued expenses. Note that the amount of expenses ($7,500), not the outlays ($70,000) are used to determine the amount to be recorded in account 3211.1 and account 5700.

F. CLOSING OF ACCOUNTS AT FISCAL YEAR END

Dr 3321 Net Results of Operations - DBOF	$7,500	
Cr 6111 Personnel Compensation - Civilian		$5,000
Cr 6121 Supplies and Materials		$1,500
Cr 6125 Depreciation of Equipment		$1,000

Dr 5700 Appropriated Capital Used	$7,500	
Cr 3321 Net Results of Operations-DBOF		$7,500

Dr 1012 Funds Disbursed	$70,000	
Cr 1013 Funds with Treasury		$70,000

NOTE: DBOF business areas using a job order cost accounting system will normally close its 6100 series of operating expense accounts into the applicable 1580 work in progress account. The work in process account is closed to account 6500, "Cost of Goods Sold," upon job completion. Account 6500 is, in turn, closed to account 3321, "Net Results of Operations - DBOF."

G. TRIAL BALANCE

1013	Funds with Treasury	$30,000	
1511	Operating Materials and Supplies	$ 8,500	
1750	Equipment	$60,000	
1759	Accumulated Depreciation on Equipment		$ 1,000
2113	Accounts Payable - Public		$ 5,000
3211.1	Appropriations Available		$92,500
	TOTAL	$98,500	$98,500

H. NOTES:

1. Accounting for appropriated funds received must be kept separate from customer reimbursements received so that expenses recognized can be matched with the proper financing source on the Statement of Operations.

2. Within the appropriated fund accounting, the account 1013, "Funds With Treasury" less the amounts recorded in account 1012, "Funds Disbursed," should show the appropriated balance remaining available for outlay.

3. Account 5700, "Appropriated Capital Used," should equal the amount of expenses recorded for that appropriation in the 6100 series of accounts for program/operating expenses.

4. The balance in account 5700 should be reported on the Statement of Operations as a Financing Source on line 1, "Appropriated Capital Used."

5. The accrued expenses in the 6100 series of accounts would be reported on the Statement of Operations on the applicable Expenses line.

6. The total of expenses reported on the applicable Expenses lines of the Statement of Operations should equal exactly the Appropriated Capital Used reported on line 1 of the Statement of Operations.

CHAPTER 53

COST ACCOUNTING STANDARDS

A. REQUIREMENTS OF COST ACCOUNTING SYSTEMS

1. The Defense Business Operations Fund shall have a cost estimating and cost accounting system or, as needed, systems specifically designed for its operations. The cost accounting system may be a job-order cost system, a process cost system or a suitable combination. When warranted for management purposes, a cost accounting system may employ standard cost methods and may utilize engineered performance standards. The cost accounting system shall be integrated with the general accounting system and shall be consistent with the estimating system.

2. The cost accounting system shall be designed to meet the following objectives:

a. Provide measures of cost effectiveness within the activity. This may be accomplished by relating performance costs to standard costs or cost estimates by established cost centers and by end-product with development of appropriate analyses of cost variances.

b. Provide the basis for determination of cost of end-products or services by individual orders. The cost of all end-products and services shall include an equitable portion of all overhead, support, and administrative functions.

c. Provide cost data useful in cost estimating for purposes of establishing fixed prices or rate schedules or for establishing cost estimates for individual orders, and in budgeting and establishment of cost standards.

d. Provide a means of detecting losses in performance of customers' orders through timely identification of costs of performing specific orders or functions and through providing data that may serve as a basis for timely revisions, where applicable, of cost estimates and ceilings under such orders as are performed on a cost reimbursement basis.

e. Provide, to the extent not available elsewhere, performance related cost measurements as required by the DoD in its implementation of requirements resulting from the Government Peformance and Reporting Act.

3. The cost estimating system shall provide the following:

a. Performance cost standards for cost control.

b. A sound foundation for establishing fixed prices or rates.

c. A reasonable basis for establishing cost estimates and ceilings for individual orders in light of the specific work order requirements.

4. Cost standards and estimates for performance of operations and functions shall be at a sufficiently conservative level to require significant efforts to meet them. The cost standards and estimates established to measure effectiveness of performance shall be regarded as targets that may be exceeded rather than "limitations" such as allotments under appropriated funds.

5. Cost estimates for end-products or services developed to establish fixed prices, rate schedules, and cost ceilings to the customer shall include allowances for cost variances and contingencies. While the use of allowances for expected cost variances and contingencies is appropriate in estimating costs of end-products and services for the purpose of pricing orders and central planning, they should not be included in standard costs to be used for performance cost control.

6. At any Fund activity in which a standard cost method is used, variances shall be analyzed by responsibility areas to provide indices of efficiency, and to assist management in improving cost control, operating efficiency, and cost estimating. Cost variances shall be separately identified for direct labor, direct material, and overhead. Predetermined cost variance limitations shall be established. Significant cost variances shall be applied to the work order. Minor variances shall be distributed to all other work.

7. Costs shall be recorded separately according to whether they were paid from the Defense Business Operations Fund or were paid by other appropriations or funds. The latter shall be recorded so that the approximate total cost of work or services performed may be determined.

B. COST ACCOUNTING STANDARDS

Public Law 100-679 (41 U.S.C. 422) requires certain contractors and subcontractors to comply with Cost Accounting Standards. Appendix B, "Cost Accounting Preambles and Regulations," to the Federal Acquisition Regulation contains a statement of the Cost Accounting Standards. Additionally, the Cost Accounting Standards are codified in 48 Code of Federal Regulation (CFR), Chapter 99. The Defense Business Operations Fund shall comply with the Cost Accounting Standards where not contradicted by other standards issued by the Under Secretary of Defense (Comptroller) or Statements of Federal Financial Accounting Standards issued by the Office of Management and Budget. Following is a brief explanation of the published Cost Accounting Standards and is not intended to be used as a reference source.

1. Cost Accounting Standard 401 -- Consistency in Estimating, Accumulating and Reporting Costs

a. Practices used by a DoD Component activity in estimating costs for proposed reimbursable orders shall be consistent with cost accounting practices it uses in accumulating and reporting actual costs.

b. Conversely, practices used by a DoD Component activity in accumulating and reporting actual costs shall be consistent with practices it uses in estimating costs for proposed reimbursable orders.

c. The grouping of homogeneous costs and estimates prepared for proposed reimbursable order purposes shall not be deemed an inconsistent application of the standard when actual costs are accumulated and reported in greater detail on an actual cost basis during job performance.

2. Cost Accounting Standard 402 -- Consistency in Allocating Costs Incurred for the Same Purpose. All costs incurred for the same purpose, in like circumstances, are either direct costs only, indirect costs only, or general and administrative (G&A) costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect or G&A cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect or G&A cost pool to be allocated to that or any other final cost objective.

3. Cost Accounting Standard 403 -- Allocation of Home Office (Headquarters) Expenses to Segments

a. Headquarters expenses shall be allocated on the basis of the beneficial or causal relationship between supporting and receiving activities. Such expenses, to the maximum extent possible, shall be allocated directly to segments (activities reporting directly to the headquarters office). Expenses not directly allocated, if significant in amount and in relation to total home office expenses, shall be grouped in logical and homogeneous expense pools and allocated as described in CAS 403.

b. Expense Pools. Examples of expense pools listed in CAS 403 include:

(1) Centralized Services. Centralized services consist of specific functions which, but for the existence of a home office, would be performed or acquired by some or all of the segments individually.

(2) Management of Specific Functions within Activities.

(3) Management of Certain Activities or Group of Activities.

c. Residual Expenses. All home office expenses which are not allocable directly or by a expense pool shall be deemed residual expenses. Residual expenses are expenses that are the result of managing the organization as a whole and are not identifiable with specific activities or segments. Residual expenses include functions such as exercising oversight, direction, and control of organizations through policy, program, resource, or Planning, Programming and Budgeting System guidance, or providing technical, administrative, or logistic support essential to an operation. Residual expenses shall be allocated to all segments by means of a base representative of the total activity of such segments. The allocation base should take into account one or both of the two broad areas of management concern, that is, the personnel of the organization and the capital invested in the organization. The residual expenses to be allocated to any segment may be

one of the following, or their arithmetical average, whichever, in absence of specific Under Secretary of Defense (Comptroller) guidance, best distributes residual expenses:

(1) The percentage of the segment's payroll dollars (Accounts 6111 and 6112) to the total payroll dollars of all segments.

(2) Direct labor dollars of the segment to the total direct labor dollars of all segments.

(3) Direct labor hours of the segment to the total direct labor hours of all segments.

(4) The percentage of the average net book value of the sum of the segment's tangible capital assets (1700 and 1800 account series) plus inventories (1500 account series) to the total average net book value of such assets of all segments.

4. Cost Accounting Standard 404 -- Capitalization of Tangible Assets

a. The acquisition cost of tangible capital assets shall be capitalized. Capitalization shall be based upon a written policy that is reasonable and consistently applied.

b. Costs incurred subsequent to the acquisition of a tangible capital asset which result in extending the life of that asset and which meet the criteria for capitalization shall be capitalized. However, costs incurred for repairs and maintenance to a tangible capital asset which either restore the asset to, or maintain it at, its normal or expected service life of production capacity shall be treated as costs of the current period.

5. Cost Accounting Standard 405 -- Accounting for Unallowable Costs. An unallowable costs is any cost which, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost reimbursements, or settlements. These costs, even though not normally charged as a reimbursable expense, shall nevertheless, if material and when directed by the Under Secretary of Defense (Comptroller), be accounted for as a cost of operations.

6. Cost Accounting Standard 406 -- Cost Accounting Period. DoD activities shall use the October 1 to September 30 fiscal year as the cost accounting period.

7. Cost Accounting Standard 407 -- Use of Standard Costs for Direct Material and Direct Labor

a. An organization operating a formal cost accounting system may use standard costs for estimating, accumulating, and reporting costs of direct material and direct labor only when all of the following criteria are met:

(1) Both standard and actual costs are entered into the books of account.

(2) Standard costs are compared to actual costs at the end of each accounting period and a variance calculated.

(3) Standard costs and related variances are appropriately accounted for at the level of the production unit. (For the Department of Defense, the "production unit" is the job-order.)

(4) Practices with respect to the setting and revising of standards, use of standard costs, and disposition of variances are stated in writing and are consistently followed.

b. Disposition of variances shall be in accordance with one of the following subparagraphs:

(1) Variances are allocated to cost objectives (including ending in-process inventory) at least annually.

(2) Variances that are immaterial may be included in appropriate indirect cost pools for allocation to applicable cost objectives.

8. <u>Cost Accounting Standard 408 -- Accounting for Costs of Compensated Personal Absence</u>

a. The costs of compensated personal absence (illness, vacation, holidays, jury duty, military training or other absence for which compensation is paid directly to an employee) shall be assigned to the cost accounting period or periods in which the entitlement was earned.

b. The costs of compensated personal absence for an entire cost accounting period shall be allocated pro-rata on an annual basis among the final cost objectives of that period.

9. <u>Cost Accounting Standard 409 -- Depreciation of Tangible Capital Assets</u>

a. The depreciable cost of a tangible capital asset (or group of assets) shall be assigned to cost accounting periods in accordance with the following criteria:

(1) The depreciable cost of a tangible capital asset shall be its capitalized cost less its estimated residual value.

(2) The estimated service life of a tangible capital asset (or group of assets) shall be used to determine the cost accounting periods to which the depreciable cost will be assigned.

b. The annual depreciation cost of a tangible capital asset (or group of assets) shall be allocated to cost objectives for which it provides service in accordance with the following criteria:

(1) Depreciation costs may be charged as a direct cost only if depreciation costs of all like assets used for similar purposes are charged in the same manner.

(2) Depreciation costs charged to service or general and administration cost centers shall be included in the allocated costs of those centers.

(3) Depreciation costs of capital assets used within a production cost center but which are not charged directly to a cost objective shall be included as an indirect cost of that center.

10. Cost Accounting Standard 410 -- Allocation of Business Unit General and Administrative Expense to Final Cost Objectives. Organizational unit general and administrative (G&A) expenses shall be allocated to final cost objectives based on their beneficial or causal relationship to those objectives. If the organizational unit general and administrative (G&A) expenses benefit two or more segments of the activity, those G&A expenses shall be allocated to each of the segments using a common allocation base. The cost input base used to allocate the G&A expense pool may be (1) total cost input, (2) value-added cost input, or (3) a single-element cost input. The determination of which cost input base best represents the total activity of an activity must be judged on the basis of the circumstances of each activity. That determination shall be made by the comptroller of the activity or, in the case where a group of activities are similarly organized, may be made by the headquarters office of those particular activities.

11. Cost Accounting Standard 411 -- Accounting for Acquisition Cost of Material

a. The Statement of Federal Financial Accounting Standards (SFFAS) Number 3, "Accounting for Inventory and Related Property," is the standard for accounting for the value of operating materials and supplies.

b. The cost, when significant, of operating materials and supplies may be allocated directly to a cost objective to which they directly benefit.

c. The cost of operating materials and supplies which are used solely in performing indirect functions or which are not a significant element of direct production cost, may be allocated to an indirect cost pool.

12. Cost Accounting Standard 412 -- Composition and Measurement of Pension Cost. This standard does not apply to the Defense Business Operations Fund as it is not responsible for accounting for the pension cost of its employees.

13. Cost Accounting Standard 413 -- Adjustment and Allocation of Pension Cost. This standard does not apply to the Defense Business Operations Fund as it is not responsible for accounting for the pension cost of its employees.

14. Cost Accounting Standard 414 -- Cost of Money as an Element of the Cost of Facilities Capital. The cost of capital committed to facilities shall be charged by the Defense Business Operations Fund to non Federal Government customers when authorized by regulations pertaining to those sales. Chapter 26, "Reimbursements," of the DoD Accounting Manual

(DoD 7220.9-M) provides instructions on the computation and application of interest on investment in assets. (Chapter 26 of the DoD Accounting Manual will be incorporated into Part A, chapter 1, "Reimbursements," of this Volume.)

15. Cost Accounting Standard 415 -- Accounting for the Cost of Deferred Compensation

a. The obligation for the cost of deferred compensation is deemed to have occurred when all of the following conditions have been met.

(1) There is a requirement to make the future payments that cannot be unilaterally avoided.

(3) The amount of the future payment can be measured with reasonable accuracy.

b. If the cost of deferred compensation can be estimated with reasonable accuracy on a group basis, including consideration of probable forfeitures, such estimate may be used rather than separate computations for each employee.

16. Cost Accounting Standard 416 -- Accounting for Insurance Costs. This standard does not apply to the Defense Business Operations Fund. The Federal Government is self-insured. Insurance type losses, when they occur, are not charged to customers of the Defense Business Operations Fund but are, instead, charged to appropriations made available for that purpose.

17. Cost Accounting Standard 417 -- Cost of Money as an Element of the Cost of Capital Assets Under Construction. The cost of money used to construct a capital asset shall not be capitalized as part of the cost of that asset unless loans were obtained by the Department of Defense specifically for the construction of those assets.

18. Cost Accounting Standard 418 -- Allocation of Direct and Indirect Costs

a. An average cost or pre-established rate for labor may be used provided that:

(1) The functions performed are not materially disparate and employees involved are interchangeable with respect to the functions performed.

(2) The functions performed are materially disparate but the employees involved either all work in a single production unit yielding homogeneous outputs, or perform their respective functions as an integral team.

b. Use of pre-established rates for indirect costs.

(1) Pre-established rates, based on either forecasted actual or standard cost, may be used in allocating an indirect cost pool.

(2) Pre-established rates shall reflect the costs and activities anticipated for the cost accounting period. Such pre-established rates shall be reviewed at least annually, and revised as necessary to reflect the anticipated conditions.

19. Cost Accounting Standard 419. There is no cost accounting standard 419.

20. Cost Accounting Standard 420 -- Accounting for Independent Research and Development Costs and Bid and Proposal Costs.

a. Independent research and development costs incurred in a cost accounting period shall not be assigned to any other cost accounting period except as may be permitted pursuant to other provisions of existing laws, regulations and other controlling factors.

b. Bid and proposal costs incurred in a cost accounting period shall not be assigned to any other cost accounting period.

CHAPTER 54

CASH, RECEIVABLES, ADVANCES, AND CASH MANAGEMENT

A. GENERAL ASSET CATEGORIES

1. Entity Assets. Entity assets are those assets which the reporting entity has authority to use in its operations. The authority to use funds in an entity's operations means that entity management has the authority to decide how funds are used,or management is legally obligated to use funds to meet entity obligations.

a. Intragovernmental Entity Assets. Intragovernmental entity assets arise from transactions among federal entities and are claims of a federal entity against other federal entities which, when collected, can be used in the collecting entity's operations. Intragovernmental entity assets include an entity's fund balance with Treasury with which the entity is authorized to make expenditures and pay liabilities, accounts receivable from federal entities that an entity is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collection, and advances and prepayments.

b. Governmental Entity Assets. Governmental entity assets are claims of the federal government or an entity (i.e., the Defense Business Operations Fund) of the federal government against nonfederal entities and which, upon collection, can be used in the collecting entity's operations. (The term "nonfederal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government.) Governmental assets include cash, accounts receivable from nonfederal entities, and advances and prepayments made to nonfederal entities.

2. Non-Entity Assets. Non-entity assets are those assets that are held by an entity but are not available to the entity.

a. Intragovernmental Non-Entity Assets. Intragovernmental non-entity assets are claims of a federal entity against other federal entities which, when collected, cannot be used by the collecting entity. Intragovernmental non-entity assets include an entity's fund balance with Treasury that is maintained in deposit, suspense, and clearing accounts and that are therefore not available to finance the entity's activities.

b. Governmental Non-Entity Assets. Governmental non-entity assets are claims of the federal government or an entity (i.e., the Defense Business Operations Fund) of the federal government against nonfederal entities that, upon collection, cannot be used by the collecting entity.

B. FUND BALANCE WITH TREASURY AND CASH

1. GENERAL INFORMATION. Volume 4, "Accounting Policy and Procedures," chapter 2, "Cash," contains general information related to fund balance with treasury and cash

2. Fund Balance With Treasury. A federal entity's fund balance with the Treasury is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Within the Department of Defense, the fund balance with Treasury is the net total of general ledger accounts 1011, "Funds Collected," 1012, "Funds Disbursed," 1013, "Funds With Treasury," 1014, "Undistributed Collections," and 1015, "Undistributed Disbursements."

a. Fund Balance Increases. The fund balance with Treasury of the Defense Business Operations Fund is primarily increased through the receipt of reimbursements from DoD and other entities. However, it is also increased through the receipt of appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations, and non-expenditure transfer of funds from other entities. The fund balance does not include contract authority or unused authority to borrow. Contract authority merely permits a federal entity to incur certain obligations but does not, in itself, add funds to the agency's accounts with Treasury. (By definition, contract authority is unfunded and must subsequently be funded by an appropriation to liquidate obligations incurred under the contract authority, or by the collection and use of receipts.) Authority to borrow is a statutory authority that permits a federal agency to incur obligations and make payments for specific purposes out of borrowed funds. Authority to borrow adds funds to an agency's accounts with Treasury only after the agency actually uses the authority to borrow a specific amount of funds. Thus, authority to borrow is included in an entity's fund balance with Treasury only to the extent that funds are actually borrowed under the authority.

b. Financial Statement Footnote Requirements for Fund Balance With Treasury. Disclosure should be made to distinguish two categories of funds within the entity's fund balance with Treasury: (1) the obligated balance not yet disbursed and (2) the unobligated balance. The obligated balance not yet disbursed is the amount of funds against which budgetary obligations have been incurred, but disbursements have not been made. The unobligated balance is the amount of funds available to an entity against which no claims have been recorded. Unobligated balances are generally available for specific purposes stipulated by law. Unobligated balances also may include balances in expired accounts that are available only for approved adjustments to prior obligations. Certain unobligated balances may be restricted to future use and are not apportioned for current use. Disclosure should be provided on such restrictions. The amount and cause of any discrepancy between the fund balance with Treasury in general ledger accounts and the fund balance in the Treasury accounts should be explained in footnotes to financial statements. Discrepancies may be due to time lag or due to error. Discrepancies due to error should be corrected when identified.

3. Account Symbol. A Treasury account symbol--97X4930--has been assigned to the Defense Business Operations Fund for the purpose of maintaining fund balances with the Department of the Treasury.

4. Recordation/Reconciliation of Cash Transactions. All cash transactions shall be recorded in the individual activity accounts and shall be reconciled to total monthly cash transactions reported by the departmental finance network.

5. Violations. The cash on hand at the U.S. Treasury account levels must always be sufficient to pay liabilities when due. The responsibility for DBOF cash management is prescribed in paragraph E. of this chapter. Each DoD Component, activity group, and/or activity operating within the Defense Business Operations Fund must comply with the Under Secretary of Defense (Comptroller) cash management policy. A transaction that causes a negative balance in the funds with the Treasury account shall be investigated immediately and reported as an apparent violation of the Antideficiency Act as prescribed in DoD Directive 7200.1, "Administrative Control of Appropriations." In accordance with DoD Directive 7200.1, the report of apparent violation will continue to be updated to provide information on the progress of the investigation. Updating of an interim report of apparent violation shall be continued until the investigation discloses that a violation did not occur, or a final report of violation is submitted.

6. Outlays. Gross outlays should be equal to the cumulative amount of disbursements made for the fiscal year to date. Net outlays should be equal to gross outlays less the cumulative amount of collections received for the fiscal year to date.

7. Current Balance. The current balance of funds with Treasury is equal to the amount as of the beginning of the fiscal year plus the cumulative fiscal year to date amounts of collections, appropriations, and transfers in of fund balances with Treasury received minus the cumulative fiscal year to date amounts of withdrawals, transfers out, and disbursements.

8. Cash Accounts. Separate general ledger accounts have been established to account for cash collections and cash disbursements. A collection or disbursement shall be recorded only when documentary evidence supports an increase or decrease to the Treasury account.

a. Cash Collections

(1) Advances Received. A cash advance received shall be recorded as a collection and a liability (account series 2310, "Advances from Others"). The usual entry for the receipt of advances is as follows:

Dr 1011.1 Funds Collected - Operating Program
Cr 2310 Advances from Others

(2) Refunds. A refund received is a reduction of a previous disbursement and shall, therefore, be recorded as a decrease to disbursements (negative disbursement) with an offsetting credit to the appropriate previously recorded refunds receivable account (account 1315, "Refunds Receivable - Government,' or account 1316, "Refunds Receivable - Public"). If a refund is received for which a refund receivable was not previously established, the offsetting credit should be to the asset or expense account that was orginally debited. The usual entry for the receipt of refunds is as follows:

Dr 1011.2 Funds Disbursed - Operating Program
Cr 1315 Refunds Receivable - Government
or, as applicable
Cr 1316 Refunds Receivable - Public

(3) <u>Funds Collected - Operating Program</u>. General ledger account 1011.1, "Funds Collected - Operating Program - DBOF," has been established to record funds collected that are applicable to the operating program. Collections may be due to advances from outside sources, performance of reimbursable work, collection of receivables, sale of assets, and other sources. All cash inflows shall be initially recorded to the general ledger account 1011.1. Periodically, but at least monthly prior to financial statement preparation, the amount applicable to the capital program [see subparagraph B.8.a.(4) that follows] shall be transferred from general ledger account 1011.1, "Funds Collected - Operating Program," to general ledger account 1011.2, "Funds Collected - Capital Program." The usual entry to record a cash collection is as follows:

Dr 1011.1 Funds Collected - Operating Program
    Cr 1311 Accounts Receivable - Government - Current

(4) <u>Funds Collected - Capital Program</u>. General ledger account 1011.2, "Funds Collected - Capital Program - DBOF," has been established to record cash inflows applicable to the capital program. As stated in subparagraph B.8.a.(3) above, all cash inflows shall be initially recorded to account 1011.1, "Funds Collected - Operating Program." Periodically, but at least monthly prior to financial statement preparation, the applicable amount shall be transferred from general ledger account 1011.1, "Funds Collected - Operating Program," to general ledger account 1011.2, "Funds Collected - Capital Program." The preferred method to transfer collections to account 1011.2 is on a transaction basis. The transfer, however, may be made on a time basis (daily, weekly, etc.). The transfer must, however, be made at least monthly prior to financial statement preparation. The amount to be transferred to account 1011.2 shall be computed by first determining, at each DBOF activity, the percentage of the stabilized billing rate that is added to fund the capital asset program within that activity's business area. (Stabilized billing rates should, in addition to recovering operating costs, also include a factor to fund the capital asset program. That factor is composed of the expected depreciation expense and, if applicable, any additional capital surcharge. Since stabilized billing rates should not change during the fiscal year, the percentage allocation between the operating and capital program cash collection accounts should not change during the fiscal year.) The resulting ratio is then applied to the monthly change in funds collected at that activity. The percentage is applied to all collections received that fiscal year, even though, for some collections, the revenue was generated in the prior fiscal year. For example, assume that at Activity X the stabilized billing rate is \$100 of which \$5 is to fund the capital asset program. The resulting percentage is therefore 5 percent (\$5 divided by \$100 = .05). Each dollar of collections results in a \$0.95 (95¢) increase to account 1011.1, "Funds Collected - Operating Program," and a \$0.05 (5¢) increase to account 1011.2, "Funds Collected - Capital Program."

At the illustrative Activity X, the cash collections for this month were \$3.5 million. The usual entry to record a cash collection is as follows:

Dr 1011.1 Funds Collected - Operating Program	\$3,500,000	
Cr 1311 Accounts Receivable - Government - Current		\$3,500,000

Computation of 5 percent of the cash collections for the month yields $175,000. The entry to transfer $175,000 between the cash accounts is:

Dr 1011.2 Funds Collected - Capital Program $175,000
Cr 1011.1 Funds Collected - Operating Program $175,000

b. Fund Balance Decreases. The fund balance with Treasury of the Defense Business Operations Fund is primarily reduced by disbursements made to pay liabilities or to purchase assets, goods, and services and reimbursements to other entities or to the Treasury. It is also reduced by cancellation of expired appropriations, non-expenditure transfers, and sequestration or rescission of appropriations.

(1) Funds Disbursed - Operating Program. General ledger account 1012.1, "Funds Disbursed - Operating Program - DBOF," has been established to record cash outflows that occurred due to activity attributable to the operating program (vice capital program). The usual entry to record a cash disbursement applicable to the operating program is as follows:

Dr 2110 Accounts Payable
Cr 1012.1 Funds Collected - Operating Program

(2) Funds Disbursed - Capital Program. General ledger account 1012.2, "Funds Disbursed - Capital Program - DBOF," has been established to record cash outflows that occurred due to activity attributable to the DBOF capital program (vice operating program). The usual entry to record a cash disbursement applicable to the capital program is as follows:

Dr 2110 Accounts Payable
Cr 1012.2 Funds Collected - Capital Program

(3) Advances Paid. A cash advance made for an anticipated procurement shall be recorded as a cash disbursement and an asset (account series 1410, "Advances to Others"). The usual entry for the payment of advances is as follows:

Dr 1410 Advances to Others
Cr 1012.2 Funds Disbursed - Capital Program

c. Fund Transfers. Fund transfers, as may be directed by the Under Secretary of Defense (Comptroller), may be made to or from the "Funds With Treasury" account and processed through the U.S. Treasury as an increase or decrease to the appropriate Treasury symbol. Authorized fund transfers among or between Treasury symbols (accounts) shall be accomplished through preparation of a Non-Expenditure Transfer Authorization (Standard Form 1151).

9. Undistributed Collections and Undistributed Disbursements

a. Subsidiary accounts to general ledger account 1014, "Undistributed Collections," and general ledger account 1015, "Undistributed Disbursements," shall be established to account for undistributed cash transactions at the lowest organizational level to which they can be identified. The subsidiary accounts are:

1014.1 Undistributed Collections - DBOF Component Level
1014.2 Undistributed Collections - DBOF Business Area Level
1014.3 Undistributed Collections - DBOF Installation Level
1015.1 Undistributed Disbursements - DBOF Component Level
1015.2 Undistributed Disbursements - DBOF Business Area Level
1015.3 Undistributed Disbursements - DBOF Installation Level

b. These subsidiary accounts are used to record collections (1014) or disbursements (1015) which are identified to:

(1) A DoD Component, but not to a business area (GLA 1014.1 and GLA 1015.1),

(2) A business area, but not to an installation (GLA 1014.2 and GLA 1015.2), or

(3) An installation, but not to a specific transaction (GLA 1014.3 and GLA 1015.3).

c. Collections or disbursements should be identified by the finance network to the lowest level to which they can be distributed. That level shall record the undistributed collection or undistributed disbursement and provide any action necessary to research the account for proper disposition.

d. The "Undistributed Collections" account is used to record collections reported by the finance network which cannot be identified to a specific organizational level or transaction. Amounts recorded in this account shall be researched for proper disposition by the lowest organizational level to which they can be distributed or identified. Erroneous collections reported by the finance network shall be reversed. Prior to financial report preparation, the remaining value in this account shall be transferred to Account 1311, "Accounts Receivable - Government - Current or Account 1313, "Accounts Receivable - Public - Current," based upon the best information available as to the proper account. Immediately after financial report preparation, the value previously transferred shall be reversed and reestablished within this account for further research. These latter transactions are necessary to properly reflect the fund balance with the U.S. Treasury as contained in finance network reports. The following illustrate entries to this credit-balance account:

Dr 1011.3 Funds Collected - Undistributed - DBOF
    Cr 1014.# Undistributed Collections
        ("#" represents the specific Undistributed Collections subsidiary account.)

To record amounts shown as collected on finance network reports but not shown on the records of the accounting entity.

Dr 1014.# Undistributed Collections
    Cr 1011.3 Funds Collected - Undistributed - DBOF

To reverse undistributed collections when identified to the proper activity.

Dr 1014.# Undistributed Collections
Cr 1311 Accounts Receivable - Government - Current
Cr 1313 Accounts Receivable - Public - Current

To transfer undistributed collections reported by the finance network prior to financial report preparation.

Dr 1311 Accounts Receivable - Government - Current
Dr 1313 Accounts Receivable - Public - Current
Cr 1014.# Undistributed Collections

To reverse undistributed collections reported by the finance network following financial report preparation.

e. The "Undistributed Disbursements" account is used to record the disbursements reported by the finance network which cannot be identified to a specific organizational level or transaction. Amounts recorded in this account shall be researched for proper disposition by the lowest organizational level to which they can be distributed. Erroneous disbursements reported by the finance network shall be reversed. Prior to financial report preparation, the remaining value in this account shall be transferred to Account 2111, "Accounts Payable - Government - Current or Account 2113, "Accounts Payable - Public - Current," based upon the best information available as to the proper account. Immediately after financial report preparation, the value previously transferred shall be reversed and reestablished within "Undistributed Disbursements" for further research. These latter transactions are necessary to properly reflect the fund balance with the U.S. Treasury as contained in finance network reports. The following illustrate entries to this debit-balance account:

Dr 1015.# Funds Disbursed - Undistributed - DBOF
Cr 1012.3 Funds Disbursed - Undistributed - DBOF
("#" represents the specific Undistributed Disbursements subsidiary account.)

To record amounts reported as disbursed on finance network reports, but not shown on the records of the accounting entity.

Dr 1012.3 Funds Disbursed - Undistributed - DBOF
Cr 1015.# Undistributed Disbursements

To reverse undistributed disbursements when identified to the proper activity.

Dr 2111 Accounts Payable - Government - Current
Dr 2113 Accounts Payable - Public - Current
Cr 1015.# Undistributed Disbursements

To transfer undistributed disbursements reported by the finance network prior to financial report preparation.

Dr 1015.# Undistributed Disbursements
Cr 2111 Accounts Payable - Government - Current
Cr 2113 Accounts Payable - Public - Current

To reverse undistributed disbursements reported by the finance network following financial report preparation.

10. Nonexpenditure Fund Transfers To or From the Business Operations Fund. Nonexpenditure transfers of funds may be received from, or may be made to, another appropriation or fund only as supported by an approved SF 1151, "Nonexpenditure Transfer Authorization." Typical budgetary and proprietary accounting entries applicable to transfer of budgetary resources to and from other appropriations and funds are illustrated below.

a. Transfers Out of Budgetary Resources

Dr 4511 Unallocated Apportionment - Direct Program
(or, if automatically apportioned)
Dr 4518 Unallocated Apportionment - Reserve for Anticipated Resources - Automatically Apportioned
Cr 4160 Anticipated Transfers of Current Fiscal Year Authority

Entry to record an anticipated transfer from a business operations fund to another appropriation or fund. (This is a departmental level entry only.)

Dr 4160 Anticipated Transfers of Current Fiscal Year Authority
Cr 4170 Appropriation Transfers

Entry to record an authorized transfer from a business operations fund to another appropriation or fund. Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization." (This is a departmental level entry only.)

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period
Cr 4581 Automatic Reimbursement Program

Dr 3211.4 Net Treasury Balance - DBOF
Cr 1013 Funds With Treasury

Entry to record a reduction of unobligated business operation fund resources due to an authorized transfer from a business operations fund to another appropriation or fund. (This is an activity level entry only.)

b. Transfers In of Budgetary Resources

Dr 4160 Anticipated Transfers of Current Fiscal Year Authority

Cr 4517 Unallocated Apportionment - Reserve for Other Anticipated Resources

Entry to record an anticipated transfer from another appropriation or fund to a business operations fund. (This is a departmental level entry only.)

Dr 4170 Appropriation Transfers
Cr 4160 Anticipated Transfers of Current Fiscal Year Authority

Dr 1013 Funds with Treasury
Cr 3211.4 Net Treasury Balance - DBOF

Entry to record an authorized transfer from another appropriation or fund to a business operations fund. Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization." (This is a departmental level entry only.)

Dr 4517 Unallocated Apportionment - Reserve for Other Anticipated Resources
Cr 4543 Allocations Issued - Reimbursable Program

Dr 3211.4 Net Treasury Balance - DBOF
Cr 1013 Funds with Treasury

Entry to record obligational authority allocated. Documentation supporting this entry includes SF 1151, "Nonexpenditure Transfer Authorization." (This is a departmental level entry only.)

Dr 4581 Automatic Reimbursement Program
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Dr 1013 Funds With Treasury
Cr 3211.4 Net Treasury Balance - DBOF

Entry to record a transfer to the business operations fund from another appropriation or fund. (This is an activity level entry only.)

C. RECEIVABLES

1. GENERAL INFORMATION. Volume 4, "Accounting Policy and Procedures," chapter 3, "Receivables," contains general information related to fund receivables.

2. General. Accounts receivable arise from claims to cash or other assets of other entities. Normally, there shall be no amounts in account 1311, "Accounts Receivable - Government - Current," and account 1313, "Accounts Receivable - Public - Current," at the end of a month due to uncollected

progress billings since collections for these billings shall be processed in the same month in which the billings are prepared.

3. Recognition of Receivables. A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

4. Supporting Records. General ledger receivable balances shall be supported by detailed records of each amount receivable from each customer such as the date recorded, bill number, and date billed.

5. Reconciliations. At least quarterly, the subsidiary records shall be reconciled to the general ledger balances. Differences between subsidiary records and general ledger balances shall be investigated to determine the cause(s) of the difference. Errors found during the investigation shall be corrected.

6. Requirements for Separate Reporting of Receivables

a. Federal and Nonfederal Receivables. Receivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities. Intragovernmental receivables are claims of a federal entity against other federal entities.

b. Entity versus Non-Entity Receivables. Receivables should be distinguished between entity receivables and non-entity receivables as discussed below.

(1) Entity Receivables. Entity receivables are amounts that a federal entity claims for payment from other federal or nonfederal entities and that the federal entity is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collections. (An entity may have receivables that, once collected, can be used as offsets to the entity's budget authority and outlays only when authorized by Congress [offsetting collections]. Before receiving the authorization, however, those receivables are non-entity receivables.)

(2) Non-Entity Receivables. Non-entity receivables are amounts that the entity collects on behalf of the U.S. government or other entities, and the entity is not authorized to spend. Receivables not available to an entity are non-entity assets and should be reported separately from receivables available to the entity.

7. Recognition of Losses Due to Uncollectible Amounts. Losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase "more likely than not" means more than a 50 percent chance of loss occurrence. An allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. The allowance for uncollectible amounts should be reestimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct. Losses due to uncollectible amounts should be measured through a systematic

methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole.

a. <u>Individual Account Analysis</u>. Accounts that represent significant amounts should be individually analyzed to determine the loss allowance. Loss estimation for individual accounts should be based on (1) the debtor's ability to pay, (2) the debtor's payment record and willingness to pay, and (3) the probable recovery of amounts from secondary sources including liens, garnishments, cross collections and other applicable collection tools.

b. <u>Group Analysis</u>. To determine the loss allowance on a group basis, receivables should be separated into groups of homogeneous accounts with similar risk characteristics. The groups should reflect the operating environment. For example, accounts receivable can be grouped by (1) debtor category [business firms, state and local governments, and individuals], (2) reasons that gave rise to the receivables [erroneous payments or trade accounts based on goods and services sold], or (3) geographic regions [foreign countries and domestic regions]. Within a group, receivables can be further stratified by risk characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables. Statistical estimation by modeling or sampling is one appropriate method for estimating losses on groups of receivables. Statistical estimation should take into consideration factors that are essential for estimating the level of losses, including historical loss experience, recent economic events, current and forecast economic conditions, and inherent risks.

c. <u>Bad Debts</u>. Provisions made for an allowance for loss on refunds, claims, and accounts receivable shall result in a corresponding increase to the GLA 6129, "Bad Debts," expense account. Interest, penalties, and administrative charges shall be assessed on delinquent receivables due from the public and aggressive action taken to collect receivables in accordance with DoD Directive 7045.13, "DoD Credit Management and Debt Collection Program."

d. <u>Writeoff of Uncollectible Receivables</u>. Collection actions for receivables due from the public should be initiated in accordance with the provisions of OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." Additionally, with regard to the write-off of amounts owed by the public, a supplement to the Treasury Financial Manual entitled, "Managing Government Credit," states that an agency will consider a debt uncollectible, terminate collection action, and write off the debt when one or more of the following five criteria apply:

(1) The debt is without merit. In these cases, the debt was never owed in the first place and should not have been classified as a debt.

(2) The debt cannot be substantiated. In these cases, the agency does not have or cannot produce the evidence or witnesses necessary to validate a claim and has not been able to obtain the voluntary repayment of the debt.

(3) The costs of further collection action will probably exceed the amount which could be recovered.

(4) The agency is unable to locate the debtor and finds that either (a) there is no security to be liquidated to recover the amount owed or

(b) the statute of limitations has expired and the chances of recovering the debt do not justify retaining the debt as a receivable.

(5) The agency is unable to collect any substantial amount.

Further, debts due from the public that are $100,000 or more must be referred to the Department of Justice for concurrence in terminating collection action. If the Department of Justice concurs with the decision to terminate collection action, the debt may be written off.

While the above criteria is specified by Treasury for writing-off receivables due from the public, similar criteria can be applied to receivables due from other Federal government entities.

8. Accounting Entries for Receivables. DoD receivables normally result from the performance of work authorized by the formal receipt and acceptance of customer reimbursable orders. Customer orders from the public, unless specifically authorized by law, require advance payment. However, receivables may also result from cash overpayments, erroneous payments, unliquidated advances or orders from other Government agencies and the public without payment in advance. When orders are received with advance payment, the performing activity is assured of reimbursement. However, when orders are received without advance payment, reimbursements may not always materialize. The following entries illustrate simplified transactions in the accounts where performance has been accomplished and revenue earned based on the acceptance of a reimbursable order without an advance. The ultimate purpose for this presentation is to demonstrate how both the proprietary and budgetary accounts are affected when uncollectible earned revenue (accounts receivable) must be written off.

a. To record actual performance and recognition of revenue.

Dr 1310 Accounts Receivable
Cr 5200 Revenue From Services Provided

To establish the receivable and recognize earned revenue from performance. The sources of entry for the above entry are billing documents, interfund billings, job cost reports, receiving reports, payroll records, etc. (The above entry is accompanied by recognition of Reimbursements Earned - Unpaid in the budgetary accounts.)

b. To record actual collection.

Dr 1011 Funds Collected
Cr 1310 Accounts Receivable

To record receipt of cash payment for reimbursable services. The source of entry for the above entry is cash collection vouchers. (The above entry is accompanied by recognition of Reimbursements Earned - Paid in the budgetary accounts.)

c. To record allowance for uncollectible receivables.

Dr 6129 Bad Debts
Cr 1319 Allowance for Loss on Accounts Receivable

To record establishment of an allowance for uncollectible receivables. (There is no corresponding budgetary entry for this entry.)

d. To record writeoff of uncollectible receivables.

Proprietary Account Entries

Dr 1319 Allowance for Loss on Accounts Receivable
Dr 6129 Bad Debts (If the allowance is not sufficient OR if an allowance had not previously been established)
Cr 1310 Accounts Receivable

To record actual write-off of bad debt.

Budgetary Account Entries. Whenever a receivable which was earned by performance on a reimbursable order is written off, appropriate entries in the budgetary accounts must be made to ensure that: (1) the uncollected reimbursement earned is liquidated by a charge to the direct program, and (2) the reimbursable program authority, established when the order was accepted, is removed as if it never existed. This requires the complete reversal of all transactions in the reimbursable program accounts relating to performance on the uncollected reimbursable order. The following transactions illustrate, in the budgetary accounts, the receipt of, and performance on, an accepted order without an advance and the subsequent entries required to liquidate the earned but uncollectible reimbursement. (The illustration uses accounts applicable under automatic apportionment of reimbursable authority. Identical entries, except using accounts applicable to a specifically apportioned reimbursable program, should be used when the reimbursable program is specifically apportioned.)

(1) Customer order accepted without an advance.

Dr 4581 Automatic Reimbursement Program
Cr 4221 Customer Orders Accepted - Automatic Apportionment

And

Dr 4231 Unfilled Customer Orders - Without Advance - Automatic Apportionment
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program

(2) To record commitment.

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program
Cr 4720 Outstanding Commitments - Reimbursable Program

(3) To record obligation/undelivered order.

Dr 4720 Outstanding Commitments - Reimbursable Program
Cr 4821 Undelivered Order - Without Advance - Reimbursable Program

(4) To record accrued expenditures - unpaid.

Dr 4821 Undelivered Order - Without Advance - Reimbursable Program
Cr 4920 Accrued Expenditures - Unpaid - Reimbursable Program

(5) To record accrued expenditures - paid.

Dr 4920 Accrued Expenditures - Unpaid - Reimbursable Program
Cr 4941 Accrued Expenditures - Paid - Reimbursable Program

(6) To record earned reimbursement.

Dr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment
Cr 4231 Unfilled Customer Orders - Without Advance - Automatic Apportionment

(7) The transactions below illustrate write off of the uncollectible earned reimbursement:

(a) To transfer earned but uncollectible amount from the reimbursable program to the direct program.

Dr 4941 Accrued Expenditures Paid - Reimbursable Program
Cr 4931 Accrued Expenditures Paid - Direct Program

(b) To remove the accepted order, which is uncollectible, from the reimbursable program.

Dr 4221 Customer Orders Accepted - Automatic Apportionment
Cr 4581 Automatic Reimbursement Program

(c) To transfer the amount earned but uncollectible from the reimbursable program to the direct program.

Dr 4611 Uncommitted/Unobligated Allotments - Direct Program - Current Period
Cr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment

D. ADVANCES AND PREPAYMENTS

1. General Information. Volume 4, "Accounting Policy and Procedures," chapter 5, "Advances and Prepayments," contains general information related to advances and prepayments.

2. Advances. Advances are cash outlays made by a federal entity to its employees, contractors, other federal entities, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Subsidiary records of individual advances shall be maintained to support the amount recorded in the general ledger account. The subsidiary record shall include the amount advanced, the date advanced, the applicable contract number, and the disposition of the advance. At least quarterly, the subsidiary record shall be reconciled with the general ledger balance.

3. Prepayments. Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. (Progress payments, cost reimbursement payments, and payments for partial deliveries made to a contractor or other federal entity based on partial completion of a contract or work request are not advances or prepayments but rather are payments based upon performance.)

4. Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. A travel advance, for example, should be initially recorded as an asset and should be subsequently reduced when travel expenses are actually incurred. Amounts of advances and prepayments that are subject to refund (for example, a settled travel claim indicating the traveler owes part of the advance to the government) should be transferred to refunds receivable.

5. Advances and prepayments paid out by an entity are assets of the entity. On the other hand, advances and prepayments received by an entity are liabilities of the entity. In financial reports of an entity, advances and prepayments the entity paid out (assets) should not be netted against advances and prepayments that the entity received (liabilities).

6. Advances and prepayments made to federal entities are intragovernmental items and should be accounted for and reported separately from those made to nonfederal entities.

E. CASH MANAGEMENT

* 1. Definition. Cash management is defined as actions necessary to main- *
* tain appropriate levels of cash to meet operational and capital requirements. *

* 2. Purpose. The purpose of the DBOF cash management policy is to maintain *
* the minimum cash balance necessary to meet both operational requirements and to *
* meet disbursement requirements in support of the capital program. *

3. Discussion. Cash generated from operations is the primary means of maintaining adequate cash levels within the DBOF. The ability to generate cash is dependent on rates that recover full costs to include prior year losses; accurate work load projections; and meeting established operational goals. Cash shortage correction efforts, when required to meet cash requirements and prevent a violation of the Antideficiency Act, will initially focus on those business areas failing to meet operational plans and, therefore, contributing to cash shortages.

4. Cash Level Criteria. Effective cash management is directly dependent on the availability of accurate and timely data on cash levels and operational results. The present criteria are for cash levels to be maintained at 7 to 10 days of operational cost ($1.5 to $2.1 billion) and cash adequate to meet 4 to 6 months of capital disbursements ($.5 to .9 billion). Improvements in management data as well as changes in operational needs and capital requirements may dictate subsequent changes in the established cash level criteria. The criteria will be reviewed at least annually by the Office of the DoD Deputy Comptroller (Program/Budget) as part of the budget review and documented in a Program Budget Decision.

5. Cash Management Plan. The Director for Revolving Funds, Office of the DoD Deputy Comptroller (Program/Budget), will develop a cash plan to facilitate the cash management process. The plan shall consider collections, disbursements, appropriations, and other cash transactions based on DoD Component estimates. This annual plan will be initially developed during the budget process and will be an integral part of the budget document. In addition, a monthly phasing of the cash plan is required to monitor execution. A monthly execution review should lead to increased management attention to reduce costs, emphasize timely billing and collection of revenue, and timely disbursements. Variances from collection and disbursement plans of $50 million for each business area will be required to be resolved; and overall cash balances of less than $1 billion will require immediate action to increase cash levels.

6. Cash Management Responsibilities. The division of responsibilities for cash management are as follows:

a. OFFICE OF THE DEPUTY COMPTROLLER FOR PROGRAM/BUDGET:

(1) Develop overall cash plans based on the impact of operations, appropriations, reprogrammings, and other cash transactions.

(2) Monitor overall cash levels.

(3) Establish procedures to correct short-term cash shortages.

b. DEFENSE FINANCE AND ACCOUNTING SERVICE:

(1) Provide timely and accurate reporting of cash levels by Component and business area.

(2) Improve cash reporting with the goal of providing real time cash balances.

(3) Work with DoD Components to correct finance and accounting problems and provide components details of DFAS changes to accounting reports.

(4) Insure collections/disbursements are consistent with policy.

(5) Take immediate corrective action to resolve cash shortages by implementing advance billing procedures when the overall cash level falls below $1 billion and DFAS has determined that the cash shortage was not caused by an anomaly.

c. DOD COMPONENTS:

(1) Establish cash plans based on the approved budget.

(2) Monitor collections and disbursements to assess operational or financial problems.

(3) Take necessary action to correct operational problems contributing to deviations from cash plans.

(4) Ensure revenue recognition, progress billing, and collection policies are followed including the minimization of outstanding receivables.

(5) Work with DFAS to correct finance and accounting problems contributing to deviations from the cash plan.

CHAPTER 55

SUPPLY MANAGEMENT OPERATIONS

A. GENERAL. This chapter prescribes policy and unique accounting requirements applicable to the Supply Management business area.

B. AUTHORIZED CUSTOMERS. A Supply Management business area is authorized to sell items to:

1. A Federal Government-funded activity or an activity empowered to perform a Federal Government-legislated function.

2. A DoD-sponsored nonappropriated fund instrumentality.

3. A State Department-sponsored employee commissary located outside the United States.

4. A foreign government when an authorized contractual relationship has been established.

5. A Federal Government contractor, when the contract specifically provides for the purchase of items by the contractor from the Government.

6. Members of the Armed Forces and other individuals authorized by law when purchasing commissary and clothing items.

7. Other entities, when authorized by duly appointed officials.

C. FINANCING

1. Items for Sale. Resources of the Supply Management business area are available to finance the acquisition and repair of items to be sold to customers.

2. Commissary Support. The costs of providing and managing commissary items, including related operating costs incurred to support the mission of commissaries, shall be identified as commissary operating costs. These costs include, but are not limited to, costs incurred to support commissaries at a headquarters or regional level. Commissary operating costs shall be charged to, and reimbursed by, appropriations made available to the Defense Business Operations Fund for commissaries and the commissary trust revolving fund as prescribed in DoD 1330.17-R, "Armed Services Commissary Regulations."

D. ITEMS TO BE INCLUDED IN THE SUPPLY MANAGEMENT BUSINESS AREA

1. General. Generally, supplies held for the purpose of sale to other DoD Components or activities within a Component and, when authorized by legislation, items procured for sale to members of the Armed Forces and other individuals or organizations may be included in the Supply Management business area. The Under Secretary of Defense (Comptroller) and the Under Secretary of Defense (Acquisition and Technology) may designate an item to be procured by the Supply Management business area and may assign the management responsibility of any item to one DoD Component from another DoD Component.

DoD Components are encouraged to propose such assignments that would result in more efficient management of supplies.

2. Military Exchange Items. Items procured primarily for sale to members of the Armed Forces and other individuals or organizations authorized by legislation may be included in the Supply Management Business Area. These include clothing sold by a military clothing resale activity, and items sold in a ship's store.

3. Military Clothing Items. The Military Exchange systems are authorized to act as agents of the Supply Management Business Area for the purpose of selling military clothing items to members of the Armed Forces. Military clothing requirements in the Department of Defense shall be procured through the Supply Management Business Area and billed at standard prices.

a. The Military Services shall include the costs of new bag items in the military personnel appropriation budget request and new organizational items in the operation and maintenance appropriation budget request. A replacement item shall be deemed a new item for the purposes of this policy if the cost of a replacement item exceeds the cost of the prior item by more than 10 percent in constant dollars.

b. The military personnel appropriation budget and the operation and maintenance appropriation budget should be sufficient to fund the quantity of the initial buy of an item of clothing including the establishment of wholesale inventory levels. New clothing items required prior to receipt of appropriated funds shall be funded in these same accounts by reprogramming action.

c. New clothing items shall be phased in after the stocks of the item being replaced are attrited. The new item shall not be available for issue by the item manager until the stocks of the item being replaced are reduced to less than an amount mutually agreed upon between the item manager and the customer military personnel appropriation account manager. The item manager shall prepare a billing to the applicable military personnel appropriation account in an amount sufficient to cover the cost of the stocks of the item being replaced.

4. Fuel. Fuel requirements in the Department of Defense shall be procured through a Supply Management business area and billed at standard prices to DoD Funded customers. In isolated locations where the Defense Logistics Agency (DLA) has authorized local procurement but the Component Supply Management business area cannot directly procure the fuel, a DoD Supply Management business area shall process billings to the procuring account to stabilize the procurements at DoD standard prices.

5. Forgings and Castings. The availability of forgings, castings, and molds should assist in controlling the contract cost of future procurements of the same items. Therefore, the Supply Management business area may procure forgings and castings or production molds, when appropriate, for Supply Management business area items only after justification to and approval by the item manager. The justification for the procurement of forgings, castings, and molds should include an analysis of the stability of the design and the related technical requirements and anticipated savings from lower production costs on subsequent procurements because of the availability of Government provided

property, reduced leadtimes, and from increased competition. The acquisition cost of forgings, castings, and molds shall be determined for each item at the time of acquisition. Each forging, casting, and mold shall be assigned a stock number and recorded as an asset in an appropriate account. The cost of forgings, castings, and molds that are broken or lost shall be recorded as a current period operating expense. The item manager shall store, protect, and preserve forgings, castings, and molds for use as Government furnished material and Government furnished equipment on subsequent procurements.

6. Drawings and Technical Data. The Supply Management business area shall finance the procurement of drawings and technical data needed in support of design stable stocked items previously or currently procured by the Supply Management business area only after justification to and approval by the item manager. The justification for the procurement of drawings and technical data should include an analysis of the stability of the design and the related technical requirements for the item and anticipated savings from increased competition, improved quality standards, or increased capability to evaluate the usefulness of existing items in the supply system. The costs of the drawings and technical data for Supply Management business area items are normally included in the costs of operations (not materiel costs) for DoD Supply Management business areas and recovered in the standard price.

7. Spares. The Supply Management business areas will acquire initial and replenishment spares consistent with the materiel support date. Initial spares are spare and repair parts supporting newly fielded weapons systems during initial period of operation until the supply system can support the demand generated by the systems. Replenishment spares are those spare and repair parts required to resupply initial stockage.

8. Reparables. As defined in DoD 4140.1-R, "DoD Materiel Management Regulation," a reparable item is an item of supply subject to economical repair and for which the repair (at either depot or field level) is considered in satisfying computed requirements at any inventory level. Supply Management Business Areas are authorized to finance the transportation, acquisition, overhaul, progressive maintenance, renovation, rework, repair, manufacture, reclamation, alteration, and/or software support of reparable items.

E. INVENTORY GENERAL LEDGER ACCOUNTS

1. Authorized Inventory General Ledger Accounts. Inventory and related property accounts authorized for use at Defense Business Operations Fund activities are listed in chapter 7 of Volume 1, "General Financial Management Informations, Systems, and Requirement," of this Regulation. Certain inventory accounts are authorized for use only in the Supply Management business area and Defense Commissary Agency. The inventory accounts authorized for use only in the Supply Management business area and Defense Commissary Agency are listed below. If one of the below listed accounts is not descriptive of a recurring and significant inventory event that affects the value of inventory at standard price, then an additional holding gain/loss subaccount(s) should be requested to be established for that purpose. Such requests should be forwarded to the Director for Accounting Policy, Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management).

1520 Inventory, Net
1521 Inventory Held for Sale
1521.1 Inventory in Transit from Procurement
1521.2 Inventory in Transit from DoD Entities
1522 Inventory Held for Future Sale
1523 Inventory Held for Repair
1523.1 Exchange (DLR) Inventory in Transit
1524 Inventory - Excess, Obsolete, and Beyond Repair
1529 Inventory - Allowance
1529.1 Allowance for Holding Gain/Loss - Inventory Held for Sale
1529.1A Realization of Holding Gains/Losses
1529.1B Purchases at Standard Price
1529.1C Purchases at Cost
1529.1D Materiel Returns at Standard Price
1529.1E Materiel Returns - Credit Given
1529.1F Materiel Returns Without Credit Given
1529.1G Standard Price Changes-Gain
1529.1H Accounting Adjustments-Gain
1529.1J Assembly/Disassembly-Gain
1529.1K Physical Inventory Adjustments-Gain
1529.1L Incoming Shipments-Gain
1529.1M Completed Inventory Repairs
1529.1N Receipts of Materiel Without Charge
1529.1P Other-Gain
1529.1Q Latest Acquisition Cost Adjustment
1529.1R Standard Price Changes-Loss
1529.1S Accounting Adjustments-Loss
1529.1T Assembly/Disassembly-Loss
1529.1U Physical Inventory Adjustments-Loss
1529.1V Incoming Shipments-Loss
1529.1W Shrinkage and Other Adjustments-Loss
1529.1X Actual Repair Costs
1529.1Y Issues Without Reimbursement
1529.1Z Other-Loss
1529.2 Allowance for Holding Gain/Loss - Inventory Held for Future Sale
1529.3 Allowance for Repair Costs
1529.3A Estimated Repair Costs
1529.3B Estimated Exchange Costs
1573 War Reserve/Mobilization Stock
1579.2 Allowance for Holding Gain/Loss - War Reserve/Mobilization Stock

2. Reconciliations. At least quarterly, line item accountability records shall be reconciled to balances recorded in the general ledger inventory accounts. Differences between line item accountability records and general ledger balances shall be investigated to determine the cause(s) of the difference. Reconciliations may be required more frequently to identify the cause(s) of the difference(s). Errors found during the investigation shall be corrected. Addendum 1, "Assessment of Inventory Amounts," included with this chapter provides further reconciliation guidance.

3. Adjustments for Physical Counts. Physical counts of inventories shall be taken in accordance with the procedures prescribed in DoD 4140.1-R, "DoD Materiel Management Regulation." In accordance with the procedures outlined in DoD 4140.1-R, the general ledger shall be adjusted for differences between the general ledger balances and the physical count.

4. Inventory Gains, Losses and Adjustments. Separate accounts shall be maintained to identify transactions that result in inventory gains, losses and adjustments. The accounts to be used in the Supply Operations business area are listed below. The use of subsidiary accounts as needed is optional.

7191 Inventory Gains

7291 Inventory Losses or Adjustments
- 7291.1 Shrinkage Losses
- 7291.2 Excess/Obsolescence/Spoilage Loss
- 7291.3 Other Inventory Losses

F. CAPITALIZED INVENTORY

1. Transfers-In Without Reimbursement. On hand and on order inventories of supplies financed by other appropriations and funds shall be recorded as contributed capital as required by 10 U.S.C. 2208 when the Supply Management business area undertakes management responsibility for the items. Bills for inventories on order at the time of the transfer shall be paid by the appropriation or fund ordering the item. This is appropriate since the appropriation or fund ordering the item was funded through the budget process to procure the item. As provided in 10 U.S.C. 2208, credits may not be made by a Supply Management business area to an appropriation or fund for capitalized inventories. However, stock withdrawal authorizations may be approved as provided in paragraph G.3. below. Capitalized inventory items shall be recorded as follows:

Dr 1521	Inventory Held for Sale	$10,000	
Cr 1529.1N	Receipts of Materiel Without Charge		$10,000

Entry to record receipt of inventory items totaling $10,000 provided from another appropriation or fund without reimbursement to that appropriation or fund. Documentation supporting this entry includes journal vouchers and receiving reports.

* 2. Transfers of Reimbursable Procurements. The Supply Management business *
* area may record a liability for an item transferred from a non-DBOF account only *
* when the item is undelivered at the time of the transfer and the obligation for *
* the item on the books of the organization from which the item was transferred *
* resulted from a reimbursable order from a customer. The liability recorded in *
* the supply management records shall be liquidated by a payment to the trans- *
* ferring appropriation or fund based upon a payment to the Supply Management *
* business area by the customer. The Supply Management business area shall record *
* a liability for inventories transferred as follows: *

Dr 1521 Inventory Held for Sale $10,000
Cr 2111 Accounts Payable - Government - Current $8,000
Cr 1529.1N Receipts of Materiel Without Charge $2,000

Entry to record receipt of inventory items totaling $10,000 for which reimbursement of $8,000 will be provided. The difference in amount between the reimbursement amount and the inventory value is recorded to account 1529.1L. Documentation supporting this entry includes a customer order or requisition.

3. Stock Withdrawal Authorizations. When items are transferred from an appropriated account to a DBOF Supply Management activity, circumstances may exist in which sufficient funds are not available for the donating activity to subsequently purchase those items from the DBOF activity when needed. In such situations, the Under Secretary of Defense (Comptroller) may be requested to approve an authorization for issues without reimbursement. The request for a stock withdrawal authorization shall identify the amount of items capitalized from the customer's appropriation or fund and the estimated amount of the transferred items required by the customer until funds can be provided through the budget process. An approved stock withdrawal authorization permits the DBOF activity to issue items to the specified customer without reimbursement up to the authorized limit for a fiscal year. Once the limit bas been reached, or the fiscal year has passed, issues shall be on a reimbursable basis. Stock withdrawal authorizations may not be recorded as a liability. An issue under a stock withdrawal authorization shall be recorded as follows:

Dr 3231 Transfers-Out to Government Agencies Without Reimbursement
Dr 1529.1A Realization of Holding Gains/Losses
Cr 1521 Inventory Held for Sale

Documentation supporting this entry includes material release orders and shipping documents.

4. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. If the Under Secretary of Defense (Comptroller) and the Under Secretary of Defense (Acquisition and Technology) designate a logistical management transfer of item(s) from the supply management business area to an appropriation (see paragraph E.) or from an appropriation to the supply management business area, an increase or a decrease to inventory for a nonreimbursable transfer shall be recorded at the value of the item being transferred. A transfer-in of an item, once operations have commenced, will be recorded as in a., below. Items transferred-out shall be recorded as in b., below.

a. Entry to record a logistical management transfer in. Documentation supporting this entry includes material receipts and catalog data.

Dr 1521 Inventory Held for Sale
Cr 1529.1L Incoming Shipments-Gain

b. Entry to record a logistical management transfer out. Documentation supporting this entry includes material release orders, shipping documents, and catalog data.

Dr 3231 Transfers-Out to Government Agencies Without Reimbursement
Dr 1529.1A Realization of Holding Gains/Losses
Cr 1521 Inventory Held for Sale

5. Accounting for Customer Returns. Customer returns may constitute a significant impact on current period revenue and inventory holding gains for the DoD Supply Management business area.

a. Returns Without Credit. The value of customer returns for which credit is not granted shall be recorded as an inventory gain rather than a transfer without reimbursement. For example, see below.

Dr 1521.2 Inventory in Transit from DoD Entities	$1,000	
Cr 1529.1F Materiel Returns Without Credit Given		$1,000

Entry to record customer returns without credit prior to its receipt.

Dr 1521 Inventory Held for Sale	$1,000	
Cr 1521.2 Inventory in Transit from DoD Entities		$1,000

Entry to record receipt of inventory in transit. The documentation supporting this entry includes receiving reports and evidence of inspection of returned items.

b. Returns With Credit. The value of customer returns for which credit is granted shall be accounted for as a decrease to current period revenues. For example, see below.

Dr 1521.2 Inventory in Transit from DoD Entities	$1,000	
Cr 1529.1D Materiel Returns at Standard Price		$200
Dr 1529.1E Materiel Returns - Credit Given	$ 800	
Cr 1311 Accounts Receivable - Government - Current		$800

Entry to record customer returns with credit prior to its receipt. (The above illustration demonstrates the return of a $1000 inventory item for which $800 credit is granted.)

Dr 1521 Inventory Held for Sale	$1,000	
Cr 1521.2 Inventory in Transit from DoD Entities		$1,000

Entry to record receipt of inventory in transit. The documentation supporting this entry includes receiving reports and evidence of inspection of returned items.

* 6. Transfers to Reutilization and Marketing (R&M). The loss, if any, on items declared excess, obsolete, or beyond repair is taken by the stockage point holding that item when the determination is made. [NOTE: The words "beyond *

repair," in the context of this general ledger account, means damaged inventory that is not economical to repair.] After recordation of the loss, transfers of excess, obsolete or beyond repair items to a Defense Reutilization and Marketing Office (DRMO) shall be accounted for as follows:

a. Dr 7291.2 Excess/Obsolescence/Spoilage Loss
Cr 1524 Inventory - Excess, Obsolete, and Beyond Repair

Stockage point entry to record transfers to a DRMO. The documentation supporting this entry includes material release orders and shipping documents. The value recorded in account 1524 is the estimated net realizable value of the excess, obsolete, or beyond repair item and not its standard price or latest acquisition cost. (See Addendum 2, Paras B.9/C.3.)

b. Dr 1765 Property Awaiting Disposal
Cr 7193 Other Miscellaneous Gains

DRMO Entry to record transfers from a stockage point. The documentation supporting this entry includes material release orders and shipping documents. The value recorded in account 1765 should be the net realizable value.

G. FINANCIAL STATEMENT INVENTORY CATEGORIES

1. General. Inventory is tangible personal property, titled to the government, that is on hand or intransit (e.g., accepted at origin from a vendor, or moving between DoD activities) and is held for sale, future sale, repair, or pending transfer to disposal. The Supply Management business area and Defense Commissary Agency are the only Defense Business Operations Fund business areas that should hold inventory. Except for excess, obsolete, and unserviceable inventory, inventory shall be valued using the latest acquisition cost method. The following are not inventory:

a. Items purchased by depot maintenance activities to be consumed in the process of repair and by other activities to be consumed in the course of operations shall be recorded and reported as "Operating Materials and Supplies," (Account Series 1510) versus "Inventory," (Account Series 1520) "Operating Materials and Supplies" shall be valued and reported at historical cost.

b. Inventory excludes some other assets held for sale, such as (1) stockpile materials (including war reserve materiel), (2) seized and forfeited property, (3) foreclosed property, and (4) goods held under price support and stabilization programs. These items may be sold; the purpose, however, of acquiring them is not to provide a product or a service for a fee.

2. Recognition. Inventory shall be recognized when title passes to the purchasing entity or when the goods are delivered to the acquiring entity, whichever occurs first. Inventory expense shall be recognized upon a sale and the value of those goods shall be removed from inventory. Delivery or constructive delivery shall be based on the terms of the contract or other agreement regarding shipping and/or delivery.

* 3. Inventory Classifications. There are five general classifications of inventory -- Inventory Held for Sale; Inventory Held for Future Sale; Excess, Obsolete, and Beyond Repair Inventory; Inventory Held for Repair; and Inventory in Transit. A description of those five categories follow: *

* a. Inventory Held for Sale. This category of inventory includes most supply system materiel in issuable condition. *

* b. Inventory Held for Future Sale. This category will be used to report the value of stocks not expected to be consumed until after the completion of the budget year. That is, economic retention stocks, contengency retention stocks and potential reutilization/disposal stocks. (War reserve materiel is reported as stockpile materials, not inventory.) *

* c. Excess, Obsolete, and Beyond Repair Inventory. This is a single category composed of three elements. However, it is not necessary or expected that a separate record be kept of each element. The elements of this inventory category are provided solely for information and not for subaccount purposes. The elements of this category are: *

* (1) Excess inventory consists of items items that are determined to be beyond economic and contingency retention stock levels and, as a result, reported as potential reutilization/disposal materiel. Until such materiel is actually declared excess and dropped from inventory, it shall be reported as "Inventory - Excess, Obsolete, and Beyond Repair." *

* (2) Obsolete inventory is inventory that is no longer needed due to changes in technology, laws, customs, or operations. *

* (3) Beyond repair inventory excludes unserviceable items but, instead, consists of items that are not expected to survive repair after technical evaluation at a maintenance activity and damaged inventory that is not economical to repair. *

* d. Inventory Held for Repair. These are inventory items that are not in issuable condition (but not beyond economic repair) and are awaiting repair before they are eligible for sale. A reparable item is an item of supply subject to economical repair and for which the repair (at either depot or field level) is considered in satisfying computed requirements at any inventory level. A depot level reparable item is one that is designated for repair at the depot level or that is designated for repair below the depot level, but if repair cannot be accomplished at that level, will have its unserviceable carcass either forwarded to the depot for repair or condemnation, or reported to its inventory control point (ICP) for disposition. A field level reparable item is one that is normally repaired below the depot level of maintenance and for which condemnation authority can be exercised below the depot level of maintenance. *

* e. Inventory In Transit. These are inventory items in transit from commercial and government suppliers. Account 1521.1, "Inventory In Transit from Procurement," and account 1521.2, "Inventory in Transit from DoD Entities," are used to record from whom the inventory is in transit. These accounts shall be used to record the initial acceptance of inventory items when title has passed *

but the items have not been received and accepted into inventory. The following illustrate the most common entries to this account:

Dr 1521.1	Inventory In Transit from Procurement	$10,000	
Cr 1529.1C	Purchases at Cost		$2,000
Cr 2113	Accounts Payable - Public - Current		$8,000

Entry to record the value of inventory in transit from procurement for which the standard price is $10,000 and the invoice cost is $8,000.

Dr 1521.2	Inventory In Transit from DoD Entities	$10,000	
Cr 1529.1E	Materiel Returns - Credit Given		$2,000
Cr 1311	Accounts Receivable - Government - Current		$8,000

Entry to record the value of inventory in transit that is being returned by customers for credit.

Dr 1523.1	Exchange (DLR) Inventory in Transit	$ 5,000	
Dr 1311	Accounts Receivable-Government-Current	$ 3,000	
Cr 5101	Revenue from Goods Sold - DBOF		$5,000
Cr 1529.3	Allowance for Repair Costs		$3,000

Entry to record sale of inventory and the associated cost of the goods sold when a reparable item is exchanged for a ready for issue inventory item.

Dr 1521	Inventory Held For Sale	$20,000	
Cr 1521.1	Inventory-In Transit from Procurement		$10,000
Cr 1521.2	Inventory-In Transit from DoD Entities		$10,000

Dr 1523	Inventory Held for Repair	$ 5,000	
Cr 1523.1	Exchange (DLR) Inventory in Transit		$ 5,000

Entries to record receipt of inventory in transit.

4. Relationship of General Ledger Inventory Accounts to Logistic Stratification Level and Supply Condition Codes. Inventory recorded in financial records should be identifiable to inventory recorded in logistic records and vice versa. To provide for such identification, stratification levels and supply condition codes are identified in subparagraph G.4.c. below to the financial inventory classifications. While supply system inventory reports within the logistics area are sometimes prepared more often, they are currently required only semiannually. However, financial inventory is reported monthly. Therefore, in order to report the value of inventory monthly, percentages must be derived from the last available stratification and perpetuated on a monthly basis until a new stratification is received.

a. Stratification Levels. Stratification is the process of applying the quantity of an individual item against the requirements for the same item in a prescribed priority and time sequence. The stratification levels are defined in DoD 4140.1-R, "DoD Materiel Management Regulation." The stratification levels currently in use within the Department of Defense are

(1) Approved Acquisition Objective,
(2) Economic Retention Stock,
(3) Contingency Retention Stock and
(4) Potential Reutilization/Disposal Materiel.

b. Supply Condition Codes. Supply condition codes classify materiel in terms of readiness for issue and use or identify action underway to change the status of materiel. Supply condition codes currently in use within the Department of Defense are defined in DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures." Those supply condition codes are:

(1) Code A - Serviceable (Issuable Without Qualification).
(2) Code B - Serviceable (Issuable With Qualification).
(3) Code C - Serviceable (Priority Issue).
(4) Code D - Serviceable (Test/Modification).
(5) Code E - Unserviceable (Limited Restoration).
(6) Code F - Unserviceable (Reparable).
(7) Code G - Unserviceable (Incomplete).
(8) Code H - Unserviceable (Condemned).
(9) Code I - NOT ASSIGNED.
(10) Code J - Suspended (In Stock).
(11) Code K - Suspended (Returns).
(12) Code L - Suspended (Litigation).
(13) Code M - Suspended (In Work).
(14) Code N - Suspended (Ammunition Suitable for Emergency Combat Use Only).
(15) Code O - NOT ASSIGNED.
(16) Code P - Unserviceable (Reclamation).
(17) Code Q - Suspended (Quality Deficient Exhibit).
(18) Code R - Suspended (Reclaimed Items, Awaiting Condition Determination).
(19) Code S - Unserviceable (Scrap).
(20) Codes T-Z - NOT ASSIGNED.

c. Relationship of Logistic Categories to Accounting Classfications for Inventory. The following table shows the relationship of logistic supply categories to general ledger inventory accounts.

* H. FINANCIAL STATEMENT VALUATION OF INVENTORY ITEMS *

* 1. General. Within the Department of Defense, inventory is reported on financial statements at its latest acquisition cost. Additionally, an allowance amount for unrealized gains and losses is also reported so that the net of the inventory at its latest acquisition cost less the allowance amount for unrealized gains and losses will yield an approximation of historical (actual) cost. *

* 2. Latest Acquisition Cost. DoD inventory is normally an asset of the Supply and Commissary resale systems only. Except for excess, obsolete, and beyond economical repair inventory, inventory shall be valued using the latest acquisition cost method. The latest acquisition cost method provides that the last representative invoice price (i.e., the specific item's cost used in setting the current year stabilized standard price) shall be applied to all like *

General Ledger Account	Stratification Level	Supply Condition Codes
1521 Inventory Held For Sale	(1) Approved Acquisition Objective (AAO)	A Issuable Without Qualification B Issuable With Qualification C Priority Issue D Test/Modification
1522 Inventory Held For Future Sale	(1) Economic Retention Stock (2) Contingency Retention Stock	A Issuable Without Qualification B Issuable With Qualification C Priority Issue D Test/Modification E Limited Restoration J Suspended (In Stock) K Suspended (Returns) L Suspended (Litigation) N Suspended (Ammunition Suitable for Emergency Combat Work Only)
1523 Inventory Held for Repair	(1) Approved Acquisition Objective (AAO) (2) Economic Retention Stock (3) Contingency Retention Stock	F Reparable G Incomplete M Suspended (In Work) Q Suspended (Quality Deficient Exhibits) R Suspended (Reclaimed Items, Awaiting Condition Determination)
1524 Inventory - Excess, Obsolete, or Beyond Repair	(1) Approved Acquisition Objective (AAO) (2) Economic Retention Stock (3) Contingency Retention Stock	H Condemned P Reclamation S Scrap
	(4) Potential Reutilization Stock	Condition Codes A - S
1573 War Reserve/ Mobilization Stock	(1) Part of Approved Acquisition Objective (AAO)	(Condition Codes do not distinguish War Reserve/ Mobilization items from inventory items.)

* units held including units acquired through donation, non monetary exchange, *
* return from end use or reutilization. For Commissary resale items and all other *

items, including those obtained through local purchase and items not held in revolving funds, price changes based on latest invoice shall be posted during the first posting cycle after receipt of invoice. For price-stabilized items in the supply system, price changes based on latest invoice shall be posted annually, unless other posting cycle is approved by the Under Secretary of Defense (Comptroller).

3. Inventory Values for Financial Statement Presentation. Inventory is reported on DoD financial statements at its latest acquisition cost less the allowance for unrealized gains and losses so that the net of the inventory will yield an approximation of historical (actual) cost.

a. Inventory Held for Sale and Inventory Held for Future Sale. Within the Department of Defense, inventory held for sale and inventory held for future sale shall be valued at its latest acquisition cost. For financial statement presentation, DBOF supply management business areas maintaining inventory values at standard [selling] price must adjust the inventory values at standard [selling] price to latest acquisition cost by removing operating cost recovery amounts and, if applicable, the prior year inflation amount from both the inventory at standard price value and the allowance for holding gain and loss account. Addendum 2, paragraph B.10., of this chapter provides an example of the month end adjustment process.

b. Inventory Held for Repair. Inventory held for repair shall be reported on DoD inventory reports and financial statements as described above. General ledger account 1529.3A, "Estimated Repair Costs," has been established to record, on an aggregate basis, the average cost to repair items that require repair. General ledger account 1529.3B, "Estimated Exchange Costs," has been established to record an estimate of operating costs to accept and process exchange items and includes carcass attrition (washouts) and transportation costs. When repairs are completed, the actual cost of repairs shall be charged to general ledger account 1529.1X, "Actual Repair Costs." Paragraph N.4. of this chapter illustrates this accounting process.

c. Excess, Obsolete, and Beyond Repair Inventory. Excess, obsolete, and beyond repair inventory shall be valued at its expected net realizable value. "Net realizable value" is the current salvage rate, expressed as a percentage of latest acquisition cost, as that rate is reported by the Defense Reutilization and Marketing Service (DRMS). The difference between the value of the inventory before identification as excess, obsolete, and beyond repair and its expected net realizable value after such identification shall be recognized as a loss (or gain) in current period operations. Any subsequent adjustments to its net realizable value shall be also recognized as a loss (or gain) in the period in which such adjustment occurs. [NOTE: Materiel transferred to the DRMS, whether from the supply system, other DBOF, or non-DBOF activities, non appropriated fund operations, or other agencies of the federal government, will be reported by the DRMS, not as inventory, but as other personal property (general ledger account 1765, "Property Awaiting Disposal") and valued by the DRMS at the current salvage rate as specifed in this paragraph.]

d. Inventory in Transit. Inventory in transit from commercial vendors, general ledger account 1521.1, "Inventory in Transit from Procurement," shall be recorded at the value of material in transit based upon amounts paid or to be paid. Inventory in transit from another DoD stockage point, general

ledger account 1521.2, "Inventory in Transit from DoD Entities," shall be recorded at latest acquisition cost (e.g., standard price). Depot level reparables (i.e., carcasses) provided in exchange for serviceable items shall be recorded in general ledger account 1523.1, "Exchange (DLR) Inventory in Transit," at the same value (i.e., standard price) of a serviceable item. However, an allowance for repairs contra-asset account shall also be established to record the estimated cost of the repair and the surcharge associated with the exchanged item. The net of the DLR in transit amount and its allowance account shall equal the value of the carcass (see paragraph N.4. for an illustration of this process).

e. Valuation Illustration. As noted above, for financial statement presentation, DBOF supply management business areas maintaining inventory values at standard [selling] price must adjust the inventory values at standard [selling] price to latest acquisition cost. Addendum 2, paragraph B.10., of this chapter provides an example of the month end adjustment process. Basically, the procedure to revalue inventory to its latest acquisition cost is to deduct the operating cost recovery amount and, if applicable, the prior year inflation amount from both the inventory at standard price value and the allowance for holding gain and loss account. This procedure should be applied only to the inventory financial classifications of "Inventory Held for Sale," "Inventory Held for Future Sale," and "Inventory Held for Repair." Inventory reported as "Inventory - Excess, Obsolete, and Beyond Repair," should be recorded at its net realizable value and therefore does not have an allowance account associated with it. As an illustration, assume that the operating cost recovery percentage for all financial inventory categories was equal to 15 percent of the standard price. In that case, the following would result (accounting entries are illustrated in Addendum 2, paragraph B.10.):

	Inventory at Standard Price		Less Surcharge		Inventory at Latest Acquisition Cost
Inventory Held for Sale	$17,850	-	$2 675	=	$15,175
Less: Allowance	$ 4,177	-	$2 675	=	$ 1,502
Equals: Actual Cost	$13,673				$13,673
Inventory Held for Future Sale	$ -0-				
Less: Allowance	$ -0-				
Equals: Actual Cost	$ -0-				
Inventory Held for Repair	$ 5,250	-	$1,050	=	$ 4,200
Less: Allowance	$ 2,700	-	$1,050	=	$ 1,650
Equals: Actual Cost	$ 2,550				$ 2,550
Inventory-Excess, Obsolete, and Beyond Repair	$ 70				$ 70
Less: Allowance	N/A				N/A
Equals: Realizable Value	$ 2,550				$ 70
Total Inventory	$23,170	-	$3,725	=	$19,445
Less: Total Allowance	$ 6,877	-	$3,725	=	$ 3,152
Equals: Cost (Value)	$16,293				$16,293

4. Holding Gains and Losses. Holding gains and losses, as reported on financial statements, are the difference between the latest acquisition cost of inventory and the historical (actual) cost of that inventory. Holding gains and losses result, in part, from changes in the value of inventory due to increases or decreases in the latest acquisition cost between the beginning of a reporting period and the end of the reporting period. Holding gains and losses are reported without operating cost recovery factors that may be added to items in inventory to determine standard (sales) price.

a. Unrealized Holding Gains and Losses. "Unrealized" refers to any gain or loss associated with inventory still held by the entity. Unrealized holding gains and losses pertain to the holding gains and losses associated with the inventory on hand during the reporting period that has not been sold or otherwise left the stocking point. Unrealized gains and losses are recorded in an allowance for unrealized holding gains/losses account. That account is a contra-asset account and is reported on the Statement of Financial Condition as an offset to the reported inventory valued at latest acqusition cost. The ending balance of the allowance for unrealized holding gains/losses shall be the cumulative difference between the historical cost, based on estimated or actual valuation, and the latest acquisition cost of ending inventory. The net of inventory at its latest acquisition cost less the amount of unrealized holding gains or losses results in an approximation of historical cost.

b. Realized Holding Gains and Losses. Realized holding gains and losses pertain to the holding gains and losses associated with inventory that has been sold, decapitalized, or otherwise disposed of during the reporting period. When a sale or other inventory transaction occurs, the previously recorded gain (or loss) in the allowance for unrealized gain/loss account is reduced thereby becoming realized as part of the cost of goods sold on the Statement of Operations.

5. Illustrative Accounting Entries for Inventory Transactions. Currently, the Military Departments and the Defense Logistics Agency account for inventory in a method different from each other. Even though the method of accounting is different, each method should yield the same inventory values for reporting on the Statement of Financial Condition and the costs of goods sold reported on the Statement of Operations. Addendum 2, "Accounting for Inventories when Using Standard Price Practices," of this chapter provides an illustration of inventory accounting for use by the Military Departments. Addendum 3, "Accounting for Inventories when Using Latest Acquisition Cost Practices," of this chapter provides an illustration of inventory accounting for use by the Defense Logistics Agency.

6. Year-End Closing/Adjusting Entry For Allowance Account. Annually, accounts subsidiary to an allowance account shall be closed to the parent account. The following accounting entries are appropriate.

a. Allowance for Holding Gain/Loss - Inventory Held for Sale. At fiscal yearend, after preparation of financial statements, the following closing entry shall be made. The purpose of the closing entry is to accumulate the net of all holding gains and holding losses so that the subsidiary accounts may start the new fiscal year with a zero ($-0-) balance.

Dr 1529.1B Purchases at Standard Price
Dr 1529.1D Materiel Returns at Standard Price
Dr 1529.1F Materiel Returns Without Credit Given
Dr 1529.1G Standard Price Changes-Gain
Dr 1529.1H Accounting Adjustments-Gain
Dr 1529.1J Assembly/Disassembly-Gain
Dr 1529.1K Physical Inventory Adjustments-Gain
Dr 1529.1L Incoming Shipments-Gain
Dr 1529.1M Completed Inventory Repairs
Dr 1529.1N Receipts of Materiel Without Charge
Dr 1529.1P Other-Gain
Dr 1529.1Q Latest Acquisition Cost Adjustment
Cr 1529.1 Allowance for Holding Gain/Loss - Inventory Held for Sale

Dr 1529.1 Allowance for Holding Gain/Loss - Inventory Held for Sale
Cr 1529.1A Realization of Holding Gains/Losses
Cr 1529.1E Materiel Returns - Credit Given
Cr 1529.1C Purchases at Cost
Cr 1529.1R Standard Price Changes-Loss
Cr 1529.1S Accounting Adjustments-Loss
Cr 1529.1T Assembly/Disassembly-Loss
Cr 1529.1U Physical Inventory Adjustments-Loss
Cr 1529.1V Incoming Shipments-Loss
Cr 1529.1W Shrinkage and Other Adjustments-Loss
Cr 1529.1X Actual Repair Costs
Cr 1529.1Y Issues Without Reimbursement
Cr 1529.1Z Other-Loss

b. Allowance for Holding Gain/Loss - Inventory Held for Future Sale. General ledger account 1529.2, "Allowance for Holding Gain/Loss - Inventory Held for Future Sale," has no subsidiary accounts. Therefore, there are no fiscal yearend closing or adjusting entries necessary.

c. Allowance for Repairs. No fiscal yearend closing or adjusting entry is necessary as the general ledger subsidiary accounts.1529.3A, "Estimated Repair Costs," and 1529.3A, "Estimated Exchange Costs," are relieved (debited) upon completion of repairs as follows:

Dr 1529.3A Estimated Repair Cost
Dr 1529.3B Estimated Exchange Cost
Cr 1529.1M Completed Inventory Repairs

I. PRICING OF INVENTORY ITEMS

1. Introduction. Policies and procedures to be used in the development of prices for Supply Management Business Area items are contained in Volume 2, "Budget Formulation and Execution," of the DoD Financial Management Regulation, DoD 7000.14-R.

2. Standard Price. As a general rule, each cataloged item with a national stock number assigned which is managed by a DoD Inventory Control Point shall have a standard price for sales to all authorized customers, except as may be authorized elsewhere in this chapter. Components shall establish product prices at the lowest practical item level in order to promote cost

visibility/management and to motivate cost effective customer/supplier behavior. At a minimum, prices should be established by Federal Supply Class (FSC) or other comparable level at which specific cost allocations can be made. Product pricing levels above the FSC must be approved by the Office of the Under Secretary of Defense (Comptroller). The standard sales price of each item shall be determined in advance of the execution year to allow for publication before the price is effective. The standard sales price becomes effective for billing purposes on the first day of the fiscal year. A standard price will not be changed during the fiscal year without the prior approval of
* the Office of the Under Secretary of Defense (Comptroller) except as provided *
* for in paragraph I.5. of this chapter. However, the dollar amount of unfilled *
customer orders accepted at the previous fiscal year's standard price shall be adjusted (upon notification to the customer) to reflect the latest standard price when notice of the price change is received. Normally, all recurring local procurements shall be cataloged and assigned a local standard price including any retail level cost recovery elemen except when the volume of local procurements of an item does not justify the assignment of a local standard price. In those cases, a local purchase of such a nonstandard item shall be priced based upon procurement cost plus any retail level cost recovery element.

a. Acquisition Cost. The most current cost of a representative procurement is the basis for establishing a standard price for an item. Acquisition cost may be calculated by dividing the most current cost amounts by the sum of their quantities. For items without a procurement history, an acquisition cost may be estimated based upon current manufacturer's price listings or market price quotations. The acquisition cost of an item procured by means of a multiyear contract may include up front costs such as setup costs that will not be incurred in future years. In those situations, the setup cost should be prorated over the total planned volume of items to be purchased under the contract.

b. Cost Recovery Elements for Wholesale-Managed Items. A cost recovery element (previously, and inaccurately, termed "surcharge") shall be included in the standard sales price of an item including direct deliveries from contractors, commercial items, nonstandard items, manufacturer's part numbered items, and other items without a standard price. Cost recovery shall consist of elements for operating costs including prior year gains and losses, transportation, inventory expenses, inventory maintenance, price stabilization, repair costs including attrition, and local cost recovery elements. Individual item prices will be established by including the cost recovery elements, by percentage or fixed amount, with the acquisition cost of the item. A percentage allocation of cost recovery elements to individual items should be used for those items for which the cost recovery elements vary closely with the acquisition cost of the item. A fixed amount should be used for those items for which the cost recovery elements do not closely vary with the acquisition
* cost. Proposed cost recovery elements shall be developed by wholesale *
* division, inventory control point, or major material category as appropriate *
* and submitted to the Office of the Under Secretary of Defense (Comptroller) *
for approval. The purpose of the cost recovery elements are to balance total revenues with total net operating costs, plus or minus changes in levels of assets, such as inventory or cash. Total net operating costs shall not include requirements funded by appropriations, such as war reserve appropriated amounts. The cost recovery elements shall encompass:

(1) Supply Operations Support Costs. The costs of operating wholesale inventory control points and wholesale supply depots shall be financed by the Supply Management business area. Such costs include civilian labor and benefits, military labor, supplies, purchased services, and other costs exclusive of costs, such as transportation and inventory maintenance, that are recouped by other cost recovery elements. The costs of performing equivalent functions at the retail (installation/area supply support) level shall not be included in the surcharge assessed by the wholesale activities.

(2) Centralized Command and Service Costs. The costs incurred by separate activities and functions that exist primarily to benefit the mission of a wholesale inventory control point and/or a wholesale supply depot. Mission support cost pools shall be established that identify costs incurred by activities and functions that directly provide benefits to wholesale inventory control points and wholesale supply depots. These cost pools will include all costs (civilian labor and benefits, supplies, purchased services, and other costs) incurred in functions such as line management (command and control), staff management (policy functions), centralized service functions (e.g., procurement, accounting, personnel, ADP, etc). The portion of such overhead cost pools that directly benefit the Supply Management business area mission shall be allocated to, and reimbursed by, the Supply Management business area. The allocation shall be based upon the relationship of the cost of the benefits provided to the Supply Management business area to the cost for all activities or functions.

(3) Depreciation. Cost of depreciation on capital equipment and other applicable assets.

(4) Capital Surcharge. An element added, when needed, to fund the increment, if any, in excess of depreciation expense recovery that is necessary to finance the approved capital investment program.

(5) Shipping and Transportation. The term "shipping and transportation" includes costs for packing, crating, handling, transportation, and, where appropriate, port loading, and unloading. Items may be shipped from a stocking point (issues) or to a stocking point (returns).

(a) Inventory Issues. Costs to be included are transportation costs for items issued by the Supply Management Business Area. To the extent that first destination transportation is not included in the acquisition cost, an estimate of the cost shall be included in this element. Second destination transportation costs should be based on the assumption of lowest cost, generally surface transportation, delivery as adjusted by projected changes in the budget year. Second destination transportation costs financed by a Supply Management Business Area generally include only transportation within the continental United States (CONUS) and between overseas locations. An additional transportation charge shall be assessed for expedited delivery and delivery outside CONUS based on destination, e.g., Europe, Far East, Near East. For commissary items, the cost of transportation of items shipped to commissaries in Alaska and Hawaii shall be included in the price charged to the commissary and recovered by a special transportation cost recovery element included in the price charged to Alaska and Hawaii commissary customers.

(b) Customer Returned Items With and Without Credit. Costs to be included are shipping and transportation costs only for items approved by an item manager for return from DoD customers to the Supply Management business area. The Supply Management business area shall reimburse transportation and other shipping costs only for items approved by an item manager for return from customers. Shipping and transportation cost for items that have not been approved by an item manager for return from customers shall not be paid by the Supply Management business area.

(c) Depot Level Reparable Exchange Carcasses. Costs to be included are shipping and transportation costs for the return of reparable exchange carcasses from customers. As a result of including a cost recovery factor ito finance shipping and transportation costs for returns of carcasses from customers, the customer will not be charged separately for carcass returns.

(d) Lateral Redistributions. Costs to be included are shipping and transportation costs for lateral distributions of stock when directed by an item manager. When a shipment is made at the direction of an Integrated Materiel Manager (IMM), the supplying (issuing) activity shall be reimbursed by the IMM for the costs of packing, crating, handling, and transportation to move that materiel.

(6) Inventory Expenses. Normal inventory expenses to be included in this cost recovery element are the net of losses and gains from incoming and outgoing shipments, physical inventory adjustments, inventory losses as a result of shrinkage, theft, deterioration, damage contamination, defective items if not reimbursed by supplier, obsolescence, and adjustments to reconcile internal records. Obsolescence consists of the current replacement cost of new or modified items required to replace items no longer needed due to changes in technology, laws, customs, or operations (for example, modification or replacement of a weapon system or commodity). Extraordinary losses such as those due to armed hostilities, riot, or significant damage due to fire, flood, earthquake, storms, or other abnormal events are not normal inventory losses and should not be included in the cost recovery element for inventory expenses. Appropriations should be sought from Congress to fund extraordinary losses.

(7) Inventory Maintenance. The inventory maintenance cost recovery element finances the acquisition of inventories which are required over and above demand replacement (excluding mobilization requirements which are financed by appropriations) to maintain the level of material support at the currently approved position. The cost recovery element for inventory maintenance should be the net impact (increases and decreases) of changes to inventory levels anticipated during the period. In a declining force structure environment, the need for an inventory maintenance cost recovery element is not anticipated.

(8) Economic Adjustments. The economic adjustment element is designed to compensate for inflation or deflation, that is expected to occur on procurements during the period of time that the prices are in effect; adjust for prior year gains or losses; maintain the approved level of Funds with Treasury; and provide consistency with the budget for DoD customers. The Under Secretary of Defense (Comptroller) issues annual inflation guidance based on

the Administration's economic assumptions. Adjustments to product prices contained in the annual budget submissions and supporting congressional justification materials shall be based on that inflation guidance.

(9) Carcass Attrition (Washouts and Losses). Activities that manage maintenance and repair missions on an exchange carcass basis incur replacement cost for carcass washouts and losses. Carcass washouts (sometimes termed "condemnations') are carcasses that, during the initial inspection, are determined to be repairable but during the repair process are determined to be unrepairable and are also determined to require replacement. If the carcass
* is determined to be unrepairable because of customer cannibalization or other *
* malicious damage caused by the customer, the customer shall be charged the *
* difference between the exchange price and the current standard price and this *
* cost shall not be included in the surcharge element. The second unique *
repairable cost to be included in this special cost recovery element is the replacement cost for carcasses lost, for example, in transit to the customer or to the supply system. Lost carcasses shall be investigated and necessary internal controls strengthened as required by DoD 7200.10-M, "Department of Defense Accounting and Reporting for Government Property Lost, Damaged, or Destroyed."

(10) Retail Losses. A cost recovery element to compensate for losses experienced at the retail supply activity level shall be included as a credit (reduction) in standard prices charged to retail activities. However, prices charged to customers of retail activities and commissaries shall not reflect this discount.

* c. Cost Recovery Elements for Retail-Managed Items. A cost recovery *
* element used by a retail level supply activity: *

(1) Will include inventory (material) expenses. Inventory *
* expenses applicable to the retail-managed items are the net impact of gains *
* and losses at the retail level, obsolescence, and shelf-life deterioration. *

(2) May include a special local cost recovery element, when *
* approved by the Office of the Under Secretary of Defense (Comptroller), added *
* to the cost of locally purchased items. *

3 Foreign Military and Private Party Sales. As prescribed in Volume 15, "Security Assistance Policy and Procedures," of this Regulation, the selling price of Defense Business Operations Fund items to Foreign Military Sales customers shall be the current Defense Business Operations Fund price for that item.

4. Lateral Redistribution of Stock. An item manager may direct a lower stockage level to issue stock when the total cost of such action is lower or when the item manager does not have stock available to meet a requisition's response time and the lower level does--such action is termed "lateral redistribution." As provided in DoD 4140.1-R, "DoD Materiel Management Regulation," billing procedures associated with lateral redistributions directed by an item manager will ensure an issuing activity is reimbursed for both the standard price of the material and the standard packing, crating, handling, and transportation costs associated with a redistribution. The item

manager will bill the requesting activity for the standard price of the material and reimburse the issuing activity for the standard price of the material and the standard packing, crating, handling, and transportation costs.

5. Authorized Reductions of Standard Prices. DoD Components shall set product prices on an annual basis. Those prices cannot be changed during a fiscal year without justification to, and prior written approval of, the Office of the Under Secretary of Defense (Comptroller). The only exceptions to the requirement for prior approval from the Office of the Under Secretary of Defense (Comptroller) are:

a. subsistence items sold to a commissary may be changed on a procurement lot basis;

b. subsistence items sold for troop issue purposes may be changed on a monthly basis;

c. clothing items required for a mandatory clothing bag may be changed when a related change occurs in the clothing allowance for military personnel.

d. unit of issue changes;

e. first time buys;

f. price challenges or breakouts;

g. discounted product prices (see paragraph I.6.);

h. customer requested product changes; and

i. seasonal price variations for materiel normally bought for direct vendor delivery.

6. Discount Pricing. As a general rule, all product prices must reflect the full cost of the product and the related management activity. However, discount pricing is permitted under the following conditions:

a. Prior approval of the Director for Revolving Funds, Office of the Under Secretary of Defense (Comptroller) for an item for which a Component desires to charge the customer a discounted price. The request to discount an item price should be accompanied with an analysis of the cost (profit/loss) impact anticipated as a result of charging a lower price.

b. Age, condition, or model: Reductions from standard prices may be made subsequent to approval by the Director for Revolving Funds, Office of the Under Secretary of Defense (Comptroller) upon determination that there is an actual difference in utility or desirability of an item because of age, condition, or model for items being phased out of the system, items no longer being procured, items with limited remaining shelf life, items in a less than "fully serviceable" condition, and items in long supply, i.e., assets stratified as "potential reutilization stock."

7. <u>Pricing for Additional/Premium Service</u>. Components may establish and offer variable levels of service related to a product, at variable prices, to allow customers the opportunity to economize according to their needs. Appropriate fees may be established annually and may vary according to the item/class of items. Refunds (credits) will be made available for those instances where a customer has paid for a level of service which was not provided. This permissible policy is not intended to authorize a reduced charge for some customers. It is intended to authorize an additional charge for customers who ask, and are willing to pay, for enhanced service. Individual orders may be assessed additional cost recovery rates based on the following elements:

a. Expedited delivery.

b. Delivery outside the continental United States based on destination, e.g., Europe, Far East, Near East.

c. Depot handling fees related to order issues only. This fee(s) will include a minimum charge for low priced orders, a standard charge for bin item issues, a standard charge for normal bulk item issues, and special charges for unusual bulk item issues, e.g., special handling and extraordinary quantities.

J. ISSUES WITHOUT REIMBURSEMENT. A Supply Management business area item may not be issued or transferred without reimbursement except as specifically authorized below:

1. <u>Domestic Civil Emergency</u>. A Supply Management business area item may be issued without immediate reimbursement when action is being taken to provide civil emergency relief assistance in accordance with the policies and procedures provided in DoD Directive 3025.1, "Military Support to Civil Authorities." However, an accounts receivable shall be established for such amounts. Subsequently, funding should be made available to cover the costs of the relief effort, and the Supply Management business area shall be reimbursed for any outstanding accounts receivable.

2. <u>Civil Disturbances</u>. A Supply Management business area item may be issued without immediate reimbursement when action is being taken to control a civil disturbance in accordance with the policies and procedures provided in DoD Directive 3025.12, "Employment of Military Resources in the Event of Civil Disturbances." However, an accounts receivable shall be established for such amounts. Subsequently, the Supply Management Business Area should be reimbursed for any outstanding accounts receivable based upon the procedures provided in DoD Instruction 7200.9, "Financing and Reporting Costs of Military Resources Used in Civil Disturbances," and Volume 6, Chapter 11 of this Regulation.

3. <u>Foreign Disaster</u>. The State Department is responsible for initiating and financing foreign disaster relief efforts pursuant to the Foreign Assistance Act of 1961. Procedures for issues of Supply Management business area material to assist in the event of a foreign disaster and reimbursements shall be in accordance with DoD Directive 5100.46, "Foreign Disaster Relief."

4. NATO Country. A Supply Management business area item may be issued to a NATO country without reimbursement under a replacement-in-kind arrangement under DoD Instruction 2010.10 (reference (s)). Nonreimbursable issues under this authority shall be changed to a reimbursable issue within 12 months if not replaced by the NATO country.

5. Military Emergency. A Supply Management business area item may be issued without immediate reimbursement when a Federal official or military officer has certified that an emergency exists under Section 3732, Revised Statutes, as implemented by DoD Directive 7220.8, "Policies and Procedures Governing the Use of the Authority of Section 3732, Revised Statutes," or emergency provisions in the current DoD Appropriations Act. However, an accounts receivable shall be established for such amounts. When funding is made available to cover the costs of the emergency, the Supply Management business area shall be reimbursed for any outstanding accounts receivable.

6. Presidentially Directed Drawdowns. A Supply Management business area item may be issued to a foreign country without reimbursement when the President has directed a drawdown of defense articles from stocks under authority such as Sections 506 and 522, 22 U.S.C. 2318. The standard price of such issues shall be reported to the Director, Defense Security Assistance Agency for inclusion in subsequent foreign assistance budget requests and to the Office of the Under Secretary of Defense (Comptroller), Revolving Funds Directorate, in order to determine the cash impact of such issues. The cash impact shall be added to the economic adjustment cost recovery element.

7. War Reserve Assets. A Supply Management business area item may be issued without reimbursement when an item is designated as a war reserve asset and the issue has been approved to satisfy requirements of a mobilization of U.S. Armed Forces.

8. Deficiencies in War Reserve Requirements. A Supply Management business area item may be issued without reimbursement when an item is issued under the policies of DoD 4140.1-R, "DoD Materiel Management Regulation," to satisfy deficiencies in war reserve requirements or between activities within the Supply Management business area. Items issued at any level, wholesale or retail, to satisfy customer requisitions shall be reimbursable from war reserve reinvestment appropriations.

9. Disposal of Excess Items. After a request to, and receipt from, the item manager of a disposal release order, excess, obsolete, or unserviceable Supply Management business area items may be issued to a Defense Reutilization and Marketing Office (DRMO) without reimbursement from the DRMO.

10. Items Nearing Obsolescence. A Supply Management business area item may be issued without reimbursement when the item is not a war reserve asset, it has six months or less of remaining shelf-life and the item manager has granted approval for the item to be issued on a nonreimbursable basis.

11. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. If the Under Secretary of Defense (Comptroller) and the Under Secretary of Defense (Acquisition and Technology) designate a logistical management transfer of item(s) from an appropriation to the supply management business area, an

increase to inventory for a nonreimbursable transfer shall be recorded at the value of the item being transferred. Normally, items transferred as a result of a logistical management transfer are transferred without reimbursement. However, under certain circumstances and with prior approval from the Office of the Under Secretary of Defense (Comptroller), transfers-in of inventory may be with reimbursement to the transferring account. Those conditions, all of which must be met, are:

a. The inventory was on order but undelivered to the transferring account at the time of the transfer.

b. The transferring account is not a business area within the Defense Business Operations Fund.

c. The inventory was ordered by the transferring account as a result of a reimbursable order from a customer of that account.

12. Other. When approval has been granted by the Secretary of Defense.

K. GOVERNMENT-FURNISHED MATERIAL (GFM). Consideration shall be given to the issuance of Supply Management Business Area items to a contractor in the development of contractual specifications. The use of GFM may limit the cost of an item, particularly for contractor overhead and profit, and may result in increased competition by encouraging more potential contractors to bid. Purposes for which GFM may be furnished include:

1. Fabrication. A Supply Management Business Area item issued by the direction of the item manager to a contractor for consumption in the fabrication, assembly, or disassembly of another Supply Management Business Area item for the benefit of the Supply Management business area shall be accounted for in account 1584, "Work in Process - GFM." A Supply Management Business Area item issued by the direction of the item manager to a DoD activity for consumption in the fabrication, assembly, or disassembly of another item for the benefit of the Supply Management business area shall be accounted for in account 1583, "Work in Process - Other Government Activities." The cost of the item consumed and other costs incurred in the fabrication, assembly, or disassembly of the new item shall be recorded as a portion of the procurement cost of the new item(s).

2. Repair Alteration, or Modification

a. Items Consumed in the Process of Repair of other Items. A Supply Management business area item issued by the direction of the item manager to a contractor for consumption in the repair, alteration, or modification process shall be accounted for in account 1584, "Work in Process - GFM." A Supply Management business area item issued by the direction of the item manager to a DoD activity for consumption in the repair, alteration, or modification process shall be accounted for in account 1583, "Work in Progress - Other Government Activities."

b. Items Issued for Repair. A reparable carcass or other item of inventory issued by the direction of the item manager to either a DoD activity or a contractor for repair, alteration, or modification shall be accounted for *

* in account 1523, "Inventory Held for Repair." Upon receipt of the repaired item, it shall be accounted for in account 1521, "Inventory Held for Sale." *

3. Forgings and Castings. The cost of forgings and castings used as Government furnished material shall be included as a part of the acquisition cost of the item that includes the forging and casting in its production.

L. GOVERNMENT-FURNISHED EQUIPMENT (GFE). Machine tools, equipment, and test equipment used in the manufacture of Supply Management business area items may be purchased by the Government and provided as GFE under a contract when economically justifiable; for example, an economic buy, repair methodology, or life-of-type buy. Supply Management business areas may not be used to procure GFE for use in the manufacture of items funded with other appropriations or funds. The Supply Management business area shall finance the cost of the GFE by use of direct appropriations if the item being produced is for mobilization purposes. If the item is being produced, in significant quantities, for a combination of operating or mobilization purposes, the costs may be prorated according to the ratio of the needs for each purpose or assigned to the primary purpose. The Supply Management business area shall maintain accountability for the GFE while in the hands of the contractor. Purposes for which GFE may be furnished include:

1. Testing. The costs of testing and inspection of a Supply Management business area item issued by direction of the item manager to a DoD or contractor facility for inspection or for testing purposes shall be charged to the Supply Management business area or appropriations available for those purposes. The costs of repairing an item damaged during testing or inspection or the standard price, if the item is destroyed beyond repair, shall be charged to the Supply Management business area or appropriations available for those purposes.

2. Forgings and Castings. The cost of molds provided to a contractor as Government furnished equipment for use in the manufacturing of a Supply Management business area item shall be accounted for as equipment in the hands of contractors in a subaccount to the appropriate inventory account. The contractor shall be held accountable for the return of the items in good condition upon completion of the contract.

M. LOANS AND LEASES

1. Authorized Recipients. Property items may only be loaned or leased to activities specified below for the stated purpose. The recipient shall be required to sign a receipt for the item. This receipt shall include a statement of the intended purpose of the loan or lease. Each loan or lease of an item shall be approved by the accountable office, the comptroller, or equivalent, of the activity responsible for accountability over the item. The approval shall include a description of the item including the price, condition, anticipated return date; and a certification that the loan or lease of the item will not jeopardize the capability to support national defense requirements. Property may be loaned to:

a. DoD Funded Customers. Items may be loaned to a DoD funded customer for a maximum of 120 days to support an approved training exercise, a military emergency, or a natural disaster.

b. U.S. Secret Service. An item may be loaned to the U.S. Secret service for a maximum of 120 days for purposes prescribed under the policies and procedures in DoD Directive 3025.13, "Employment of Department of Defense Resources in Support of the United States."

c. Civilian Law Enforcement Officials. An item may be loaned to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in DoD Directive 5525.5, "DoD Cooperation with Civilian Law Enforcement Officials."

d. State and Local Governments. An item may be loaned to a state or local government for a maximum of 120 days for a specific purpose, under the policies and procedures prescribed in DoD Directive 3025.1, "Military Support to Civil Authorities."

e. National Veterans' Organizations. Under the authority of 10 U.S.C. 2541, an item (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) may be loaned to a recognized national veterans' organization for a maximum of 120 days to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization. A bond equal to the current standard price of the item shall be obtained before the item is loaned. The veteran's organization must pay for all expenses incurred in the delivery, return, rehabilitation, or replacement of the property.

f. American National Red Cross. Under the authority of 10 U.S.C. 2542, an equipment item may be loaned to an organization formed by the American National Red Cross for a maximum of 120 days for the purpose of instruction and practice needed to aid the Army, Navy, or Air Force in time of war. 10 U.S.C. 2542 requires that a bond for the care and safekeeping of the loaned property equal to twice the value of the property shall be obtained before the item is loaned.

g. Inaugural Committee. Under the authority of 10 U.S.C. 2543, items may be loaned to an Inaugural Committee established under 36 U.S.C. 721 to support an inauguration of the President of the United States for a period not to exceed 9 days beyond the inauguration ceremony. A bond equal to the current standard price of the item shall be obtained before the item is loaned. The Inaugural Committee shall pay for all expenses incurred for the delivery, return, rehabilitation, replacement, or operation of the property.

h. Boy Scout Jamborees. Under the authority of 10 U.S.C. 2544, cots, blankets, commissary equipment, flags, refrigerators, and other equipment may be loaned to the Boy Scouts of America for the use of Scouts, Scouters, and officials who attend any national or world Boy Scout Jamboree. In addition, services and expendable medical supplies, as may be necessary or useful to the extent that items are in stock and items or services are available may be furnished without reimbursement. Items may be loaned for a maximum of 120 days. A bond equal to the value of the loaned items shall be obtained before

the items are loaned. No expense shall be incurred by the United States Government for the delivery, return, rehabilitation, or replacement of such equipment.

i. Humanitarian Relief. Under the authority of 10 U.S.C. 2544, nonlethal excess supplies may be made available for transfer to the Department of State for its distribution for humanitarian relief. The term "nonlethal excess supplies" means property, other than real property, of the Department of Defense that is excess property as defined in regulations of the Department of Defense; and that is not a weapon, ammunition, or other equipment or material that is designed to inflict serious bodily harm or death.

j. Foreign Countries or International Organizations. An item may be leased to an eligible foreign country or international organization under the authority of the Arms Export Control Act. Policy and procedures for the lease of material to foreign countries and international organizations is contained in Chapter 12 of DoD 5105.38-M, "Security Assistance Manual," and volume 15 of the DoD Financial Management Regulation, "Security Assistance Policy and Procedures," DoD 7000.14-R, Section 713. Refer to these references for approval channels and expense requirements in addition to paragraph 2 and 3 below.

k. Other Leases. Under the authority of 10 U.S.C. 2667, a non-excess Supply Management Business Area item may be leased to an organization when the Secretary of Defense or the Secretary of the Military Department has determined that the item is not needed for DoD use during the proposed lease period and the lease will promote the national defense or otherwise be in the public interest.

2. Approvals. Each loan or lease of an item shall be approved by the comptroller, or equivalent, of the activity responsible for accountability over the item. The approval shall include a description of the item including the price, condition, anticipated return date; and a certification that the loan of the item will not jeopardize the capability to support national defense requirements.

3. Expenses. The recipient shall pay for any transportation, packing, crating, and handling costs associated with the loan or lease of the item. At the time of return of the item, the recipient shall be required to pay any costs necessary to restore the item to its original condition or to pay for any item the recipient does not return within the approved period of the loan or lease.

N. REPARABLES

1. Standard Price. The standard price for reparable items, including the cost recovery elements, shall be developed consistent with the policies prescribed for other Supply Management Business Area items. Sales of reparable items made without a return shall be priced at the standard price. Exchange arrangements are not authorized for customers outside the Federal Government except for a Foreign Military Sales (FMS) customer investing in Cooperative Logistics Supply Support Arrangements (CLSSA). Sales to customers outside the Federal Government shall be priced in accordance with Volume 11A, Chapter 1, "General Reimbursement Procedures and Supporting Documentation," [currently in

Chapter 26 of DoD 7220.9-M, "DoD Accounting Manual,"] and Volume 15, "Security Assistance Policy and Procedures," of this Regulation.

2. Exchange Price. For the issue of a reparable item in which the requisitioner indicates a carcass will be returned, the customer will be charged the exchange price, i.e., the established repair cost plus the appropriate cost recovery elements. The exchange price for reparable items shall be determined by a homogeneous grouping such as National Stock Number (NSN), Federal Supply Classification (FSC), subclassification, repair category, or materiel category. The exchange price may consist of a percentage factor times the standard price. The exchange price shall be established before the beginning of each fiscal year for each homogeneous group and provided to customers and shall remain constant throughout the execution fiscal year.

3. Calculation of Exchange Price. The exchange price shall be calculated on the most representative unit repair cost of the item plus the appropriate cost recovery elements to recover the cost of managing the item. The same cost recovery elements used in the standard price calculation shall be used in the calculation of the exchange price plus cost recovery elements for carcass attrition (washout and loss) and shipping and transportation costs for returns of carcasses from customers. If the standard price is less than the exchange price, a review of the standard price and the exchange should be made to validate their accuracy. If the standard price is less than the exchange price because new items are not currently being acquired, the standard price shall be increased 20 percent over the exchange price to incentivize the customer to return the carcass to the wholesale system.

4. Illustration of Accounting for Inventory Held for Repair. Most items held for repair are obtained as the result of an exchange transaction. The process consists of the sale of a serviceable item in exchange for an item that needs repair plus a promise to pay (accounts receivable) or the actual payment (cash) for the difference in value between the two items. If the item needing repair has not been received at the time of exchange, an in-transit account shall be established to account for the due-in. Upon receipt of the item needing repair, it is sent to a repair facility. While at the repair facility, the item continues to be accounted for by the supply system as inventory held for repair and not as work in progress. Upon return of the repaired item, it becomes available for sale and is placed into the appropriate inventory for sale account. The accounting entries to accomplish this process are illustrated below.

(1) Exchange of Serviceable Item for Reparable Item. Inventory items requiring repair are generally obtained from customers as a partial exchange for a serviceable inventory item. The remaining exchange should be an account receivable equal to the selling price of the serviceable item less the estimated repair and exchange cost of the exchange item. The estimated repair and exchange costs shall be established on an aggregate basis, using an average cost to repair. Inventory held for repair shall be valued at the same value as a serviceable item. However, contra-asset accounts (i.e., account 1529.3A, "Estimated Repair Costs," and account 1529.3B, "Estimated Exchange Costs") shall be established for the estimated repair and exchange cost. An exchange of a serviceable item for reparable item is illustrated by the following accounting example:

Dr 1523.1	Exchange (DLR) Inventory in Transit	$5,250	
Dr 1311	Accounts Receivable-Government-Current	$2,700	
Cr 5101	Revenue from Goods Sold - DBOF		$5,250
Cr 1529.3A	Estimated Repair Costs		$1,650
Cr 1529.3B	Estimated Exchange Costs		$1,050

Entry to record sale of inventory when a reparable item is to be exchanged for a ready for issue inventory item. In this case, the current standard price of the exchanged item is $5,250 and the estimated repair cost for the item is $1,650. (Note: The estimated repair cost need not be established for the particular item to be exchanged but, instead, may be an average cost to repair exchange items of the same type.)

(2) Receipt of Reparable Item.

Dr 1523	Inventory Held for Repair	$5,250	
Cr 1523.1	Exchange (DLR) Inventory in Transit		$5,250

Entry to record receipt of exchange (DLR) inventory. The exchange item is recorded at its standard price. (A standard allowance for repair was established at the time the exchange transaction occurred -- see above.)

(3) Reparable Items Sent to Repair Facility. Reparable items sent to a repair facility shall continue to be reported by the supply systems as "Inventory Held for Repair," and not as work in progress by the supply system while items are at a repair facility.

(4) Receipt of Repaired Item from Repair Facility. When the repair is actually made, the value of the repaired item included in Account 1523, "Inventory Held for Repair," shall be relieved from that account and reclassified to Account 1521, "Inventory Held for Sale." The amount payable to the repair facility for the repair is recorded in Account 1529.1X, "Actual Repair Cost," and as an Account Payable. Receipt of repaired items is illustrated by the following accounting example:

Dr 1521	Inventory Held for Sale	$5,250	
Cr 1523	Inventory Held for Repair		$5,250
Dr 1529.1X	Actual Repair Costs	$1,500	
Cr 2111	Accounts Payable-Government-Current		$1,500
Dr 1529.3A	Estimated Repair Cost	$1,650	
Dr 1529.3B	Estimated Exchange Cost	$1,050	
Cr 1529.1M	Completed Inventory Repairs		$2,700

Entry to record receipt of repaired items from a repair facility. In this illustration, although the estimated repair cost was $1,650, the repair facility charged only $1,500 for the repair work. [Note: In many instances, the amount charged by a DoD repair facility is equal to the estimated repair cost.]

O. WAR RESERVE MATERIALS

1. Definition. War reserve/mobilization items are those materials that, in addition to peacetime assets normally available on any given date, are necessary to equip and support the increase in military requirements forecasts contingent on an outbreak of war and sustain operations until resupply can be effected. War reserve materiel includes secondary items procured and/or stored in support of wartime scenarios established in Defense Planning Guidance or contingency operations identified in specific Operational Plans. Within the Defense Business Operations Fund, war reserve/ mobilization stock shall be classified as an element of stockpile materials. War reserve materials, are not held with the intent of selling in the ordinary course of business. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. (National Defense Stockpile materials are accounted for within the National Defense Stockpile Transaction Fund, which is not part of the DBOF. Stockpile materials are discussed in Volume 4, Chapter 4, of this Regulation.)

2. Funding for War Reserve Materials. War reserve materiels shall be funded from appropriations made direct to the DBOF. Such appropriated amounts shall be reflected as a separate goal within the applicable Supply Management or Commissary Resale business area annual operating budget letter. Items such as ammunition and/or principal and major end items procured for war reserve shall not be DBOF-funded, but shall be funded through amounts available to Component/Defense Agency procurement appropriations.

3. Accounting for War Reserve Materials. Purchases of DBOF-funded war reserve items shall be accounted for at the same level of detail as items procured for peacetime requirements. The value of war reserve items shall be recorded in a separate general ledger accounts, or appropriate subaccounts, to retain separate visibility of such assets. The general ledger accounts established for those purposes are account 1573, "War Reserve/Mobilization Stock," and account 1579.2 "Allowance for Holding Gain/Loss - War Reserve/ Mobilization Stock." War reserve items are not available for sale in the ordinary course of business; therefore, cost of war reserve items shall be separately maintained and reported from inventory costs to ensure that the unit cost targets for the Supply Management business are not affected.

4. Valuation of War Reserve Materials

a. Latest Acquisition Cost. War Reserve materials shall be valued on the basis of latest acquisition cost.

b. Allowance for Holding Gains and Losses. General ledger account 1579.2, "Allowance for Holding Gain/Loss - War Reserve/Mobilization Stock," shall be established to account for valuation changes.

c. Exception to Valuation of War Reserve Materials. The carrying amount of war reserve materials that have suffered (a) a permanent decline in value to an amount less than their cost or (b) damage or decay shall be reduced to the expected net realizable value of the materials. The decline in value shall be recognized as a loss in the period in which it occurs.

5. Disposition of War Reserve Materials. War Reserve materials are held in reserve to be available for transfer without reimbursement when the issue of a war reserve asset has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, war reserve and other stockpile materials may be sold. The accounting for each of those possibilities is as follows:

a. Transfer Without Reimbursement. An issue of war reserve without reimbursement shall be recorded as follows:

Dr 3231 Transfers-Out to Government Agencies Without Reimbursement
Cr 1573 War Reserve/Mobilization Stock

Documentation supporting this entry includes material release orders and shipping documents.

b. War Reserve Materials Authorized For Sale. War reserve materials are not held with the intent of selling in the ordinary course of business. However, they may be sold when authorized. When war reserve materials are authorized to be sold, those materials shall be disclosed, as applicable, as inventory held for sale (Account 1521, "Inventory Held For Sale"). The materials authorized for sale shall be valued using the same basis as used for other same commodities normally held for sale. The accounting entry to reclassify war reserve material as inventory held for sale is:

Dr 1521 Inventory Held For Sale
Cr 1573 War Reserve/Mobilization Stock

5. Financial Statement Disclosure Requirements. Notes accompanying financial statements shall include:

a. General composition of war reserve materials.
b. Basis for valuing war reserve materials; including valuation method and any cost flow assumption.
c. Changes from prior year accounting methods, if any.
d. Restrictions on the use of war reserve materials.

P. RETURN OF ITEMS TO THE SUPPLY MANAGEMENT BUSINESS AREA

1. Customers Who May Return Items. A customer within the Federal Government may return an item to a Supply Management Business Area. Section 2208 of 10 U.S.C. states, "The appraised value of supplies returned to working capital funds by a department, activity, or agency may be charged to that fund. The proceeds thereof shall be credited to current applicable appropriations and are available for expenditure for the same purposes that those appropriations are so available. Credits may not be made to appropriations under this subsection as a result of capitalization of inventories . . ."

2. Customers Who May Not Return Items. A customer outside of the Federal Government may not return an item to a DoD Supply Management Business Area. If such a customer has an item to return, the DoD Supply Management Business Area

may buy the item back from the customer as described in Volume 15, "Security Assistance Policy and Procedures," of this Regulation.

3. Credit Options. Credits for returned items shall be granted by the item manager based upon receipt, inspection, and classification of the item.

a. Return of a Fully Serviceable Consumable or Reparable Item. When approved by the item manager, a credit shall be granted to a Federal Government customer in the amount of the current standard price less the current fiscal year's approved cost recovery elements for the return of a fully serviceable consumable or reparable item that is within the approved acquisition objective. Credit shall be granted by the item manager based upon receipt, inspection, and classification of the item. A return that stratifies to a war reserve requirement does not qualify for credit.

b. Return of Reparable Carcass When Part of an Exchange Transaction. When approved by the item manager, a credit shall be granted to (1) a Federal Government customer or (2) a Foreign Military Sales (FMS) customer investing in Cooperative Logistics Supply Support Arrangements (CLSSA) for the return of a less than fully serviceable, economically repairable item when the item is within the approved acquisition objective. Such credit shall be in the amount of the current standard price, less the exchange price. (The exchange price is the total of the established repair cost and the appropriate cost recovery elements.) A returned item that stratifies to a war reserve requirement does not qualify for credit.

c. Return of a Reparable Carcass When not Part of an Exchange Transaction. When approved by the item manager, a credit shall be granted for the return of a reparable carcass from a Federal Government funded customer without an exchange if the Supply Management Business Area forecasts a need for the carcass within the approved acquisition objective. The credit shall be in the amount of the value of the carcass to the Supply Management Business Area but not more than the current standard price, less the exchange price. (The exchange price is the total of the established repair cost and the appropriate cost recovery elements.)

d. Return of Defective Items. A credit shall be granted to a customer at standard price for defective items issued by a Supply Management Business Area, including specification defects, when a customer's quality deficiency report has been validated.

4. Credits Applied Toward Future Requirements. Credits granted may be applied against future customer demands in the current fiscal year for items or directly credited to the current year available funds of the customer.

5. Shipping Costs. Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The Supply Management business area shall reimburse transportation and other shipping costs only for items approved by an item manager for return from customers. Shipping and transportation cost for items that have not been approved by an item manager for return from customers shall not be paid by the Supply Management business area.

Q. EXCESS ITEMS DISPOSITION

1. Issues of Excess Items to Reutilization and Marketing. Excess, obsolete, or beyond repair Supply Management business area items may be transferred without reimbursement, when authorized by the responsible National Inventory Control Point Manager, to a Defense Reutilization and Marketing Office (DRMO). Any DoD-funded customer may obtain any item from a DRMO, without reimbursment to the Supply Management business area even if the item was previously a Supply Management business area item. A DRMO shall issue an item without reimbursement to a Supply Management business area when the item is required to satisfy a Supply Management business area requirement.

2. Issues of Excess Items to Other DoD Activities. An issue of a Supply Management business area item excess to the needs of the National Inventory Control Point Manager may be made directly to a DoD-funded customer without reimbursement to satisfy deficiencies in mobilization reserve requirements. In accordance with paragraph I.4. of this chapter, a lateral redistribution of an item excess to the immediate needs of a retail activity from that activity to another, when directed and controlled by a wholesale manager, shall be without reimbursement from the receiving activity. Rather, the wholesale manager shall bill the receiving activity for the standard price of the material and reimburse the issuing activity for the standard price of the material and its standard packing, crating, handling, and transportation costs.

R. CONTRACT AUTHORITY FOR SUPPLY MANAGEMENT OPERATIONS

1. General. Based upon the authority in 10 U.S.C. 2210, the OMB apportions anticipated contract authority at the beginning of a fiscal year for the amount of the approved Supply Management business area program. This anticipated contract authority becomes realized contract authority when obligations are incurred by the Supply Management business area. Unfunded contract authority is the amount that obligations incurred are in excess of customer orders accepted. Contract authority provided to Supply Management business area is subject to apportionment as required by the Antideficiency Act in accordance with the procedures prescribed in OMB Circular A-34, "Instructions on Budget Execution."

2. Budgetary Resources. Supply Management business area budgetary resources available for use during a fiscal year consist of any appropriated and reappropriated amounts made available; the net of any nonexpenditure transfers into and out of the Supply Management business area and other Federal Government accounts; balances made available from the previous fiscal year; and apportioned anticipated contract authority. Normally, obligation authority for Supply Management business area activities is derived from two primary sources. These sources are (a) contract authority and (b) appropriated funds for war reserve/mobilization purposes. Supply Management business area liabilities are payable from the fund balance with Treasury. The two primary sources for the fund balance with Treasury for DoD Supply Management business areas are (a) collections from customers and (b) appropriations.

a. Appropriated Balances Brought Forward. At the end of each fiscal year, unused balances of funds appropriated to the Supply Management bvusiness area shall be used to offset the need for anticipated contract authority. Such amounts are not available for use until they are reapportioned and

reflected on the supporting financing schedule as an increase to the limit imposed for obligation authority on an approved apportionment in the new fiscal year.

b. Anticipated Contract Authority. The OMB may approve and apportion anticipated contract authority in the amount of the approved Supply Management Business Area operating program.

(1) A request for apportionment of anticipated contract authority forwarded to the OMB shall be recorded as follows:

Dr 4211 Anticipated Reimbursements - Specific Apportionment
Cr 4440 Revolving Funds Available for Apportionment

Entry to record a request for apportionment of anticipated reimbursements forwarded to the OMB. The documentation supporting this entry is a DD 1105, "Apportionment and Reapportionment Schedule."

(2) The receipt of the approved apportionment request shall be recorded as follows:

Dr 4440 Revolving Funds Available for Apportionment
Cr 4514 Unallocated Apportionment - Reimbursable Program - Current Period

Entry to record the receipt of the approved apportionment request. The documentation supporting this entry is an approved DD 1105, "Apportionment and Reapportionment Schedule."

(3) Allocations issued shall be recorded as follows:

Dr 4514 Unallocated Apportionment - Reimbursable Program - Current Period
Cr 4543 Allocations Issued - Reimbursable Program - Current Period

Entry to record allocations issued. The documentation supporting this entry is an approved allocation document.

(4) Allocations received shall be recorded as follows:

Dr 4550 Internal Fund Distributions Received
Cr 4563 Unallotted Allocations - Reimbursable Program - Current Period

Entry to record allocations received. The documentation supporting this entry is an approved allocation document.

(5) Allotments issued shall be recorded as follows:

Dr 4563 Unallotted Allocations - Reimbursable Program - Current Period
Cr 4573 Allotments Issued - Reimbursable Program - Current Period

Entry to record allotments issued. The documentation supporting this entry is an approved allotment document.

(6) Allotments received shall be recorded as follows:

Dr 4582 Allotted Reimbursable Program - Current Period
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Entry to record allotments received. The documentation supporting this entry is an approved allotment document.

c. OMB Footnote. The OMB apportionment of anticipated reimbursements as anticipated contract authority currently includes a footnote, consistent with the following:

> Pursuant to 10 U.S.C. 2210(b) obligations/commitments may be incurred in excess of the amount of the apportioned resources actually realized in the amount of contract authority approved, but not in excess of the total apportioned. The estimated unfunded balance of this contract authority pursuant to 10 U.S.C. 2210(b) of $_________ on September 30, 19xx is increased by $___________ provided that this amount is automatically reduced to the extent that orders are realized.

d. Realized Contract Authority. Anticipated contract authority becomes realized contract authority when obligations are incurred. Therefore:

(1) At the end of each month, the balance of apportioned, anticipated reimbursements recorded in account 4211, "Anticipated Reimbursements - Specific Apportionment" shall be adjusted by the net change in operating obligations incurred during the month as recorded in account 4820, "Undelivered Orders - Reimbursable Program," account 4920, "Accrued Expenditures - Unpaid - Reimbursable Program," and account 4940, "Accrued Expenditures - Paid - Reimbursable Program." For example:

Dr 4131 Contract Authority - Without Liquidating Appropriation
Cr 4211 Anticipated Reimbursements - Specific Apportionment

Entry to record realized contract authority. Documentation supporting this entry includes reports of obligations incurred.

(2) At the end of each fiscal year, the cumulative balance in account 4131, "Contract Authority - Without Liquidating Appropriation," shall be supported and adjusted as necessary to equal the results of the following computation:

(a) Add the year-end balances in accounts 4800, "Undelivered Orders," 4910, "Accrued Expenditures - Unpaid - Direct Program," and 4920, "Accrued Expenditures - Unpaid - Reimbursable Program."

(b) From this sum subtract the sum of the year-end balances in accounts 4230, "Unfilled Customer Orders," 4251, "Reimbursements Earned-Uncollected-Automatic Apportionment," 4252, "Reimbursements Earned - Uncollected - Specific Apportionment," and 1010, "Fund Balance With Treasury."

(c) The cumulative from inception balance in account 4131, "Contract Authority - Without Liquidating Appropriation," should equal the results of this computation. If not equal, the 4131 account shall be adjusted to equal the result. For example, if the contract authority should be adjusted down as a result of this computation:

Dr 4211 Anticipated Reimbursements - Specific Apportionment
Cr 4131 Contract Authority - Without Liquidating Appropriation

Documentation supporting this entry includes a journal voucher documenting the above required process.

e. Liquidation of Realized Contract Authority. The receipt of customer orders liquidate realized contract authority. Customer orders received are requisitions and other orders accepted for items to be furnished on a reimbursable basis. Budgetary resources provided from a customer order are available to fund obligations, provided that, in the case of orders from the public, an advance has been collected. Throughout the fiscal year, the cumulative amount of resources available from customer orders is adjusted to the extent that orders are canceled, or revised upward or downward because of standard price changes, quantity adjustments, etc. The amount of budgetary resources available for obligation from customer orders is the sum of orders received from Federal Government accounts that represent valid obligations of the ordering account, plus advances received on orders accepted from the public. Orders from the public include orders received from state and local governments. These budgetary resources shall replace the budgetary resources apportioned as anticipated reimbursements and should be accounted for at the departmental level based upon the net change in customer orders received during the month as recorded in account 4222, "Customer Orders Accepted - Specific Apportionment," as follows.

(1) Activity Level Processing. The receipt of a customer order at the activity level shall be recorded as an increase to customer orders accepted and an increase to unfilled customer orders. This is necessary because supply operation business areas receive obligation authority based upon anticipated reimbursements without regard to the timing of the receipt of the customer order. If the normal accounting for the receipt of a customer order

is used, duplicate obligation authority from the receipt of the order would occur at the allotment level. The required entries are:

Dr 4232 Unfilled Customer Orders - Specific Apportionment
Cr 4222 Customer Orders Accepted - Specific Apportionment

Entry to record acceptance of a customer order at the activity level for supply operations business areas. The documentation supporting this entry includes customer requisitions and reimbursable orders accepted.

(2) Departmental Level Processing. For apportioned business areas, these budgetary resources shall replace the budgetary resources apportioned as anticipated reimbursements at the departmental level based upon the net change in customer orders received during the month as recorded in account 4222, "Customer Orders Accepted - Specific Apportionment," as follows.

Dr 4222 Customer Orders Accepted - Specific Apportionment
Cr 4131 Contract Authority - Without Liquidating Appropriation

Entry to record replacement of obligational authority provided through contract authority with obligational authority provided through customer orders. Documentation supporting this entry includes reports of customer orders accepted.

f. Unobligated Budgetary Resources. At the end of each fiscal year, any unobligated balances of appropriated funds applicable to apportioned business operation fund business areas shall be used to offset the need for unfunded contract authority. Such funds are not available for use until they are reapportioned and reflected on the supporting financing schedule as an increase to the limit imposed for obligation authority on an approved apportionment in the new fiscal year. Any unobligated balance at the end of the fiscal year is adjusted to zero. For example:

Dr 4543 Allocations Issued - Reimbursable Program - Current Period
Cr 4211 Anticipated Reimbursements - Specific Apportionment

Entry to eliminate anticipated contract authority at the Departmental level.

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period
Cr 4582 Allotted Reimbursable Program - Current Period

Entry to eliminate anticipated contract authority at the allotment level. Documentation supporting this entry includes a withdrawal of an allotment of funds.

S. MULTIPLE YEAR CONTRACTS

1. General. Multiyear contracts permit the purchase on one contract of more than one annual program increment of items in order to obtain a maximum economic advantage. For example, an economic order quantity in a multiyear contract may exceed a normal annual buy and yet be advantageous to the Government. Supply Management business areas are authorized to use multiple year contracts to procure items from a single contractor. Sole source items with a stable demand projection that are procured from a single contractor shall be evaluated to determine if the items should be acquired by means of a multiple year contract. As with multiyear contracts funded by procurement appropriations, the Supply Management Business Area may purchase items in an amount corresponding to the economic order quantities deemed appropriate for procurement in each year. Components, parts, and raw material for use in manufacture of items being acquired under a multiyear contract may be procured in quantities exceeding the current annual requirement when it is more economical and cost effective to do so. This is referred to as advance economic order quantity (EOQ) procurement. Advance EOQ procurements integral to multiyear contracts shall be funded in the most economical manner. They may be funded fully in single year increments on a termination liability basis, or included in a multiyear contract along with the nonrecurring contract costs. Under 10 U.S.C. 2306, the Department of Defense is authorized to enter into multiyear contracts containing cancellation clauses that may include both nonrecurring and recurring costs. This law specifies congressional reporting requirements based on cancellation ceilings. Further, annual DoD Appropriations Acts may contain specific language requiring limitations on the use of multiyear contracts. For example, total procurements under a single multiple year contract may not exceed $500 million or a termination liability under a single contract may not exceed $20 million without the approval of the Congress under the provisions of the current DoD Appropriations Act. In addition, a single proposed multiple year contract in excess of $100 million or $10 million in estimated termination liability shall be submitted to the Office of the Under Secretary of Defense (Comptroller) for approval prior to awarding the contract. Each separate option to extend a multiple year contract shall be considered as a single multiple year contract for the purposes of this approval requirement. The DoD Components shall refer to annual guidance contained in Under Secretary of Defense (Comptroller) Multiyear Procurement Appropriation Language Guidance Memoranda for specific requirements and restrictions imposed by the Congress.

2. Obligations. The Supply Management Business Area shall obligate the minimum amount required for the period of the contract.

a. If the contract provides for annual terms with options to extend the terms in subsequent years, the obligation shall be for the amount required to be procured by the Government in the first year. The obligation for each option year shall be recorded when the option is exercised.

b. If the contract provides for minimum quantities over a period of more than one year, the obligation shall be recorded for the sum of all of the minimum quantities times the agreed price. If the contract provides for minimum dollar amounts for a period of more than one year, the obligation shall be recorded for the sum of the minimum dollar amounts.

3. Cost of Items. The cost of items procured by multiple year contracts shall be the amount paid for each item. If termination costs are incurred or if minimum guaranteed amounts are not met for items procured, the additional costs paid under the terms of the contract shall be recorded as Supply
* Management Business Area materiel obligations. *

T. BUDGETARY ACCOUNTS

1. General. Budgetary accounts are used to control and account for obligation authority received from appropriations and contract authority, both apportioned by OMB. Supply Management Business Areas are subject to apportionment as required by the Anti-Deficiency Act in accordance with the procedures prescribed in OMB Circular A-34, "Instructions on Budget Execution."

2. Allocations. The general provisions of the annual Appropriations Act provide that "Except in amounts equal to the amounts appropriated to working capital funds in this Act, no obligations may be made against a working capital fund to procure war reserve material inventory unless the Secretary of Defense has notified the Congress prior to any such obligation." Obligation authority for mobilization purposes shall be allocated and allotted separately as direct program. Obligations for mobilization purposes are defined in Volume 2, "Budget Formulation and Execution," of this Regulation. Operating obligations consist of all obligations that do not meet the criteria defined for mobilization and shall be allocated and allotted separately as reimbursable program. Obligations shall be accounted for and reported separately as mobilization and operating. Subaccounts to the budgetary accounts prescribed by this Regulation shall be established by the Defense Finance and Accounting Service to satisfy these requirements.

ASSESSMENT OF INVENTORY AMOUNTS

Determinations as to the reasonableness of amounts shown in the general ledger accounts and reported in financial statements shall be based on a top-down approach. This approach is necessary because the size of DoD inventories normally precludes a 100 percent physical inventory.

a. As a first step, the balance in the inventory general ledger account shall be compared to logistic records. This comparision shall reconcile differences resulting from inventory receipts and issues that were not posted to the general ledger accounts but that were recorded in logistic records or vice versa. The purpose of this reconciliation is to support a management determination that the balances in the accounting system and the logistics system are in substantial agreement.

b. When the reconciliation of the logistic records to the general ledger account balances is completed, physical inventories shall be taken to ensure that the number of items reflected in logistic records are reasonably accurate. The reconciliation process is displayed in illustrations 1 through 4 of this addendum. Illustration 4 is a work sheet intended to demonstrate the overall reconciliation of the general ledger accounts with the logistic records. As such it is usable for both stages of the reconciliation process.

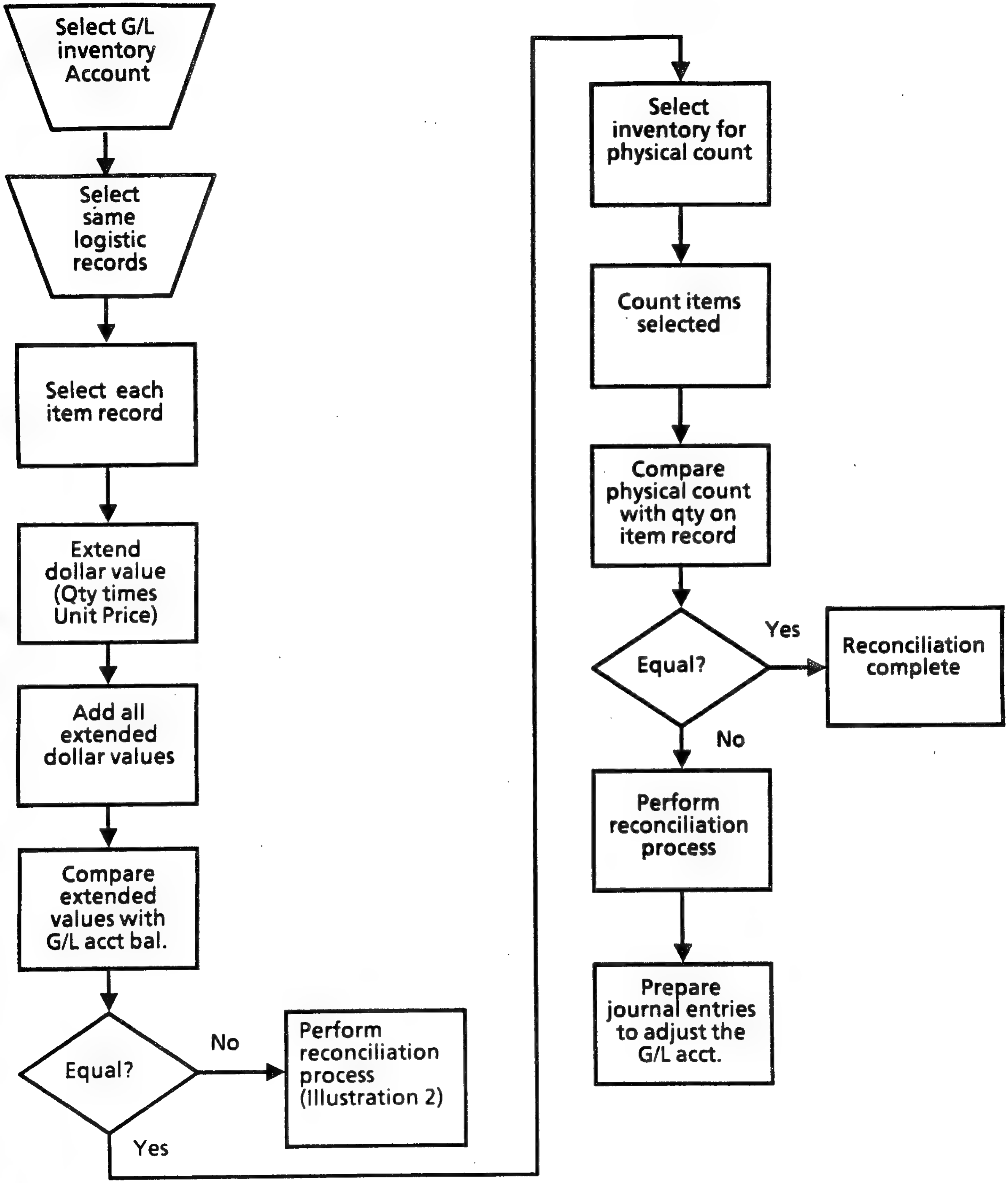
c. Physical counts of DoD inventories shall be taken periodically and must be designed to provide a reasonable assurance that logistic records accurately reflect on hand quantities. The sizes of these inventories preclude a 100 percent count except in unusual circumstances such as a major breakdown in internal controls. Therefore, it is frequently necessary to use statistical sampling techniques. Acceptable statistical sampling techniques are widely prescribed and any acceptable technique may be used so long as every item included in inventory has a probability of selection. When a DoD Component elects to use statistical sampling techniques the results must be such as to provide reasonable assurance that the general ledger accounts are accurate with a 90 percent level of confidence and a precision level of + or - 2.5 percent.

d. Care must be taken to consider infloat documentation, i.e., receipts and issues before reaching any conclusions that property records are not accurate.

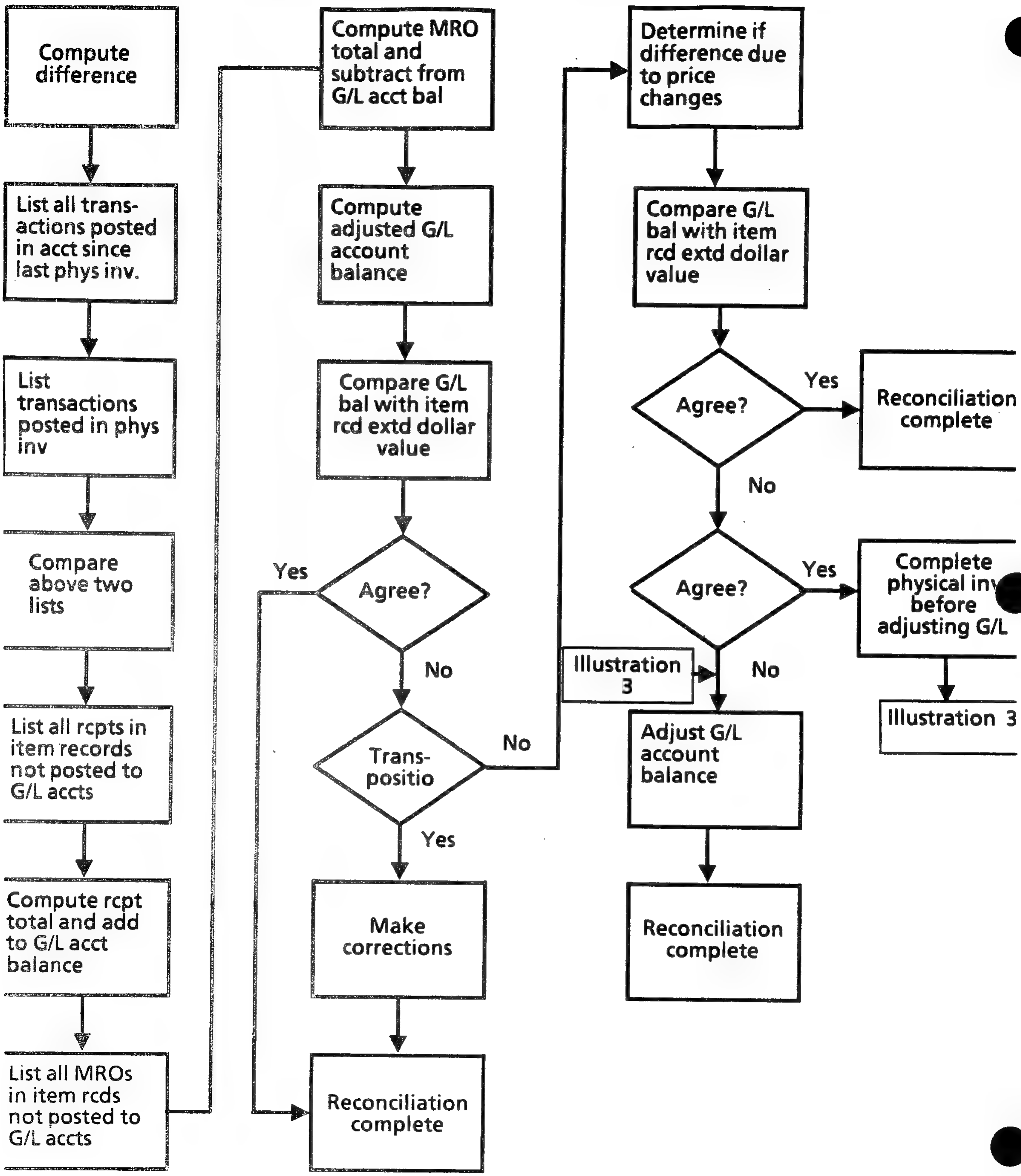
e. Adjustments to logistic records and financial records shall be made only for those specific items where the physical counts or supporting documentation (e.g., receiving reports, inventory records, issue documents) disclose overages or underages. However, there should be a statistical projection of the dollar impact on the financial records. If the dollar value is material, the sample size should be increased and another estimate of the impact made. If this estimate also discloses a material impact then a complete inventory shall be taken or the financial statements qualified to disclose the fact that the reported inventory values are inaccurate. Failure to conduct required physical inventories shall be disclosed as a material weakness in Section 4 of the Federal Managers' Financial Integrity Act statement if the inventory dollar value is significant.

f. Adjustments to the general ledger accounts and the item logistic records shall be supported by a DD Form 200 "Report of Survey," prepared in accordance with DoD Manual 7200.10-M, "Department of Defense Accounting and Reporting for Government Property Lost, Damaged, or Destroyed." DD Form 200 is used for preparing the government property lost, gained, damaged or destroyed report on inventory.

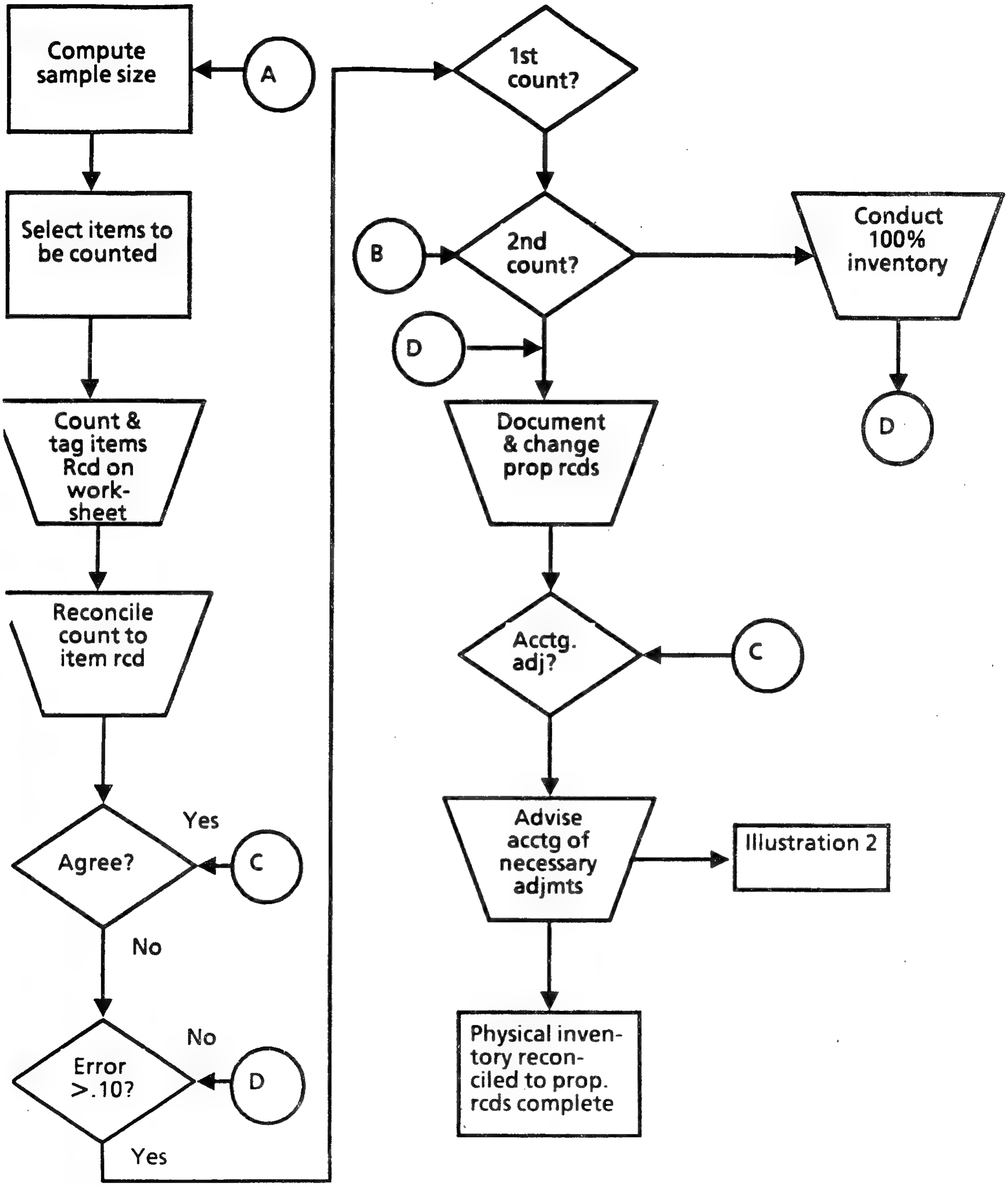
INVENTORY RECONCILIATION PROCESS - SUMMARY



INVENTORY RECONCILIATION PROCESS -
GENERAL LEDGER/ITEM PROPERTY ACCOUNTABILITY RECORDS



INVENTORY RECONCILIATION PROCESS -
PHYSICAL COUNT PROCEDURE



INVENTORY RECONCILIATION PROCESS - GENERAL LEDGER/ITEM ACCOUNTABILITY RECORDS WORK SHEET

alance in G/L acct $______

.DD:

Inventory receipts not recorded in G/L acct $______

Price increases not recorded in G/L acct $______

Other increases to inventory not recorded in G/L acct (List on separate sheet) $______

Total additions $______

JBTRACT:

Inventory issues not recorded in G/L acct $______

Price decreases not recorded in G/L acct $______

Other decreases to inventory not recorded in G/L acct (List on separate sheet) $______

Total subtractions $______

djusted G/L acct balance $______

Total of itemaccountability records $______

ADD:

Increases to G/L acct not made to itemaccountability records (List on separate sheet) $______

SUBTRACT:

Decreases to G/L acct not made to item accountability records (List on separate sheet) $______

Adjusted item accountability records balance $______

ACCOUNTING ILLUSTRATION

ACCOUNTING FOR INVENTORIES WHEN USING STANDARD PRICE PRACTICES

A. GENERAL

1. The military departments record inventory at its standard [sales] price. As a rule, that value changes only once a year and is effective as of the first day of a fiscal year. The standard price includes cost recovery factors (commonly termed "surcharges") to recover operating costs and anticipate price inflation changes. The difference between the standard price of an inventory item and its acquisition cost is an unrealized gain which will not become realized until that item is classified as potential excess, sold or otherwise leaves the supply management stocking point. Holding gain and loss accounts have been established to accumulate the value of holding gains and losses during the fiscal year. When inventory is sold or otherwise disposed, the previously unrealized holding gain or loss is realized and recorded in account 1529.1A, "Realization of Holding Gains/Losses." The holding gain and loss accounts are:

- 1529.1A Realization of Holding Gains/Losses
- 1529.1B Purchases at Standard Price
- 1529.1C Purchases at Cost
- 1529.1D Materiel Returns at Standard Price
- 1529.1E Materiel Returns - Credit Given
- 1529.1F Materiel Returns Without Credit Given
- 1529.1G Standard Price Changes-Gain
- 1529.1H Accounting Adjustments-Gain
- 1529.1J Assembly/Disassembly-Gain
- 1529.1K Physical Inventory Adjustments-Gain
- 1529.1L Incoming Shipments-Gain
- 1529.1M Completed Inventory Repairs
- 1529.1N Receipts of Materiel Without Charge
- 1529.1P Other-Gain
- 1529.1Q Latest Acquisition Cost Adjustment
- 1529.1R Standard Price Changes-Loss
- 1529.1S Accounting Adjustments-Loss
- 1529.1T Assembly/Disassembly-Loss
- 1529.1U Physical Inventory Adjustments-Loss
- 1529.1V Incoming Shipments-Loss
- 1529.1W Shrinkage and Other Adjustments-Loss
- 1529.1X Actual Repair Costs
- 1529.1Y Issues Without Reimbursement
- 1529.1Z Other-Loss

NOTE: Every event that results in a change in the standard price value of existing inventory should be reflected in one of the holding gain or loss accounts specified above. If one of the above accounts is not descriptive of a recurring and significant inventory event that affects the value of inventory at standard price, then an additional holding gain/loss subaccount(s) should be requested to be established for that purpose. Such requests should be forwarded to the Director for Accounting Policy, Office of the Under Secretary of Defense (Comptroller/Financial Management).

2. Through use of the above allowance accounts, inventories should be reported on the Statement of Financial Condition and Cost of Goods Sold at latest acquisition cost and operating results should not be adversely affected by unrealized gains and losses in inventory values and differences between monthly and annual reporting processes.

3. For financial statement presentation, inventory is shown at its latest acquisition cost. The cost of inventory items sold is shown, in accordance with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," at an approximation of its historical (actual) cost. The inventory accounts minus the unrealized gains or losses amount in the allowance account will approximate inventory at acquisition cost.

4. The following illustration provides an explanation of the accounting necessary to properly record the DBOF supply management inventory for those supply management business areas which maintain inventory values at standard (selling) price. The illustration demonstrates the affect on unrealized holding gains due to standard price adjustments, purchases, inventory returns, and other transactions. The illustration also demonstrates the computations necessary to properly adjust cost of goods sold to the actual cost of the items sold.

5. The accounting for, and reporting of, inventory requires the cooperation of, and information from, both the entity at which daily transactions occur and the entity that uses the transaction data. For reporting purposes, the transactions described herein may be recorded at the reporting level if the transaction level does not have the capability to do so at this time. As soon as systems permit, the transactions should all be recorded at the transaction level. Many, but not all, of the accounting entries contained within this addendum should be prepared at the transaction level. The transaction level should be able to recognize many of the holding gain and loss accounts as a reclassification of existing accounts. The significant difference is that those accounts are classified differently than they were previously. The reclassification was necessary so that the unrealized holding gain or loss would be recognized only when inventory is sold or otherwise leaves the supply management stocking point.

6. Roughly, the following steps shall be performed in accounting for, and reporting of, inventory at its latest acquisition cost. The following direction must be consistently followed. Any changes to the following steps should be proposed to the Director for Accounting Policy, Office of the Under Secretary of Defense (Comptroller/Financial Management). DoD Component system or other differences may require deviation from the following steps; however, prior to implementation, those deviations must be approved by the Director for Accounting Policy.

Step 1 Establish initial inventory allowance account to identify cost recovery factors, prior year inflation, repair costs, and write-down of potential excess at the amount of the last adjustment contained in the FY 1994 Chief Financial Officer Act financial report submission. (NOTE: This is a one-time step to initially establish the allowance account at the same value as reported on the prior year CFO submission. For following years, the

inventory allowance account will be continued at its then current amount.)

Step 2 Monthly, stratify on-hand inventory by authorized levels using most current stratification data available. (Currently, inventory stratification data is updated only quarterly. That data, when received, is the most current stratification data available and shall be used for 3 months until the next quarterly stratification report is available.) Stratification levels include:
- Approved acquisition level
- Authorized retention
- Potential excess

Step 3 Stratify on-hand inventory by:
- Reparables
- Non-Reparables (Consumables)

Step 4 Stratify on-hand inventory by:
- Serviceable
- Unserviceable

Step 5 Remove cost recovery factors (i.e., surcharges) and, if applicable, prior year inflation factors from all on-hand inventories.

Step 6 For unserviceable portion of on-hand reparable inventories, remove repair cost percentage.

Step 7 For potential excess and unserviceable portion of non-reparable on-hand inventories, adjust to net realizable value. (Annually, the adjustment percentage changes. Currently, it is approximately 2 percent of sales price.)

Step 8 For in-transit inventories, determine:
- Amount from contractors
- Amount of reparables
  - Serviceable
  - Unserviceable

Step 9 For in-transit inventories, determine if:
- Amount from contractors is at acquisition cost
- Amount of reparables is at sales price less cost recovery and inflation factors and repair cost

Step 10 For in-transit inventories, remove, cost recovery factor (i.e., surcharges) and prior year inflation factors

Step 11 For unserviceable portion of in-transit reparable inventories, remove repair cost percentage if necessary

Step 12 For non-reparable portion of in-transit unserviceable inventories, adjust to net realizable value

Step 13 prepare journal vouchers to record in the allowance account all gains and losses to inventory occurring during the month, e.g.
Purchases at sales price and purchases at cost
Customer returns without cost
Sales price gains and losses
Physical inventory and accounting gains and losses
Incoming shipments gains and losses
Shrinkage, damage, and other losses

Step 14 prepare journal vouchers to record decrease in allowance account based upon the percentage of allowance account to inventory times total sales for:
Sales to customers
Transfers to disposal

Step 15 Prepare journal vouchers at the end of the month to adjust on-hand and in-transit inventories as described above in order to establish inventory at latest acquisition cost.

B. MONTH ONE

1. ESTABLISH INITIAL INVENTORY ALLOWANCE AMOUNT. As of October 1, 1994, general ledger account 1529.1, "Allowance for Holding Gain/Loss - Inventory Held for Sale," general ledger account 1529.2, "Allowance for Holding Gain/Loss - Inventory Held in Reserve for Future Sale," and general ledger account 1529.3, "Allowance for Repairs," should be established to identify cost recovery factors (i.e., surcharges), prior year inflation, repair costs, and write-down of potential excess at the same amount of the last adjustment contained in the FY 1994 Chief Financial Officer Act financial report submission. This is a one-time step to initially establish the allowance account at the same value as reported on the prior year CFO submission. For following years, the inventory allowance account will be continued at its then current amount. For illustration purposes, assume the initial allowance amount for "Inventory Held For Sale" is $7,000. The following tables are included to assist in the understanding of the inventory accounting process. The entries may be made at the transaction level or summarized at the monthly reporting level but not at both levels. The table to illustrate the beginning inventory position for "Inventory Held for Sale," is:

Inventory Held For Sale

Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500

2. ADJUSTMENT OF INVENTORY TO NEW STANDARD PRICE

Dr 1521 Inventory Held for Sale	$ 500	
Cr 1529.1G Standard Price Changes-Gain		$ 500

Entry to adjust value of inventory items in stock to the now current standard price when the recorded value of those items at the prior standard price was LESS than the now current standard price. [Assume that 100 items are in inventory, the previous standard price was $345 per item. and the allowance account had a credit beginning balance of $7,000. Those items require revaluation to the current $350 standard price. The revaluation will then require a $500 adjustment -- 100 items @ $5 adjustment per item = $500.]

NOTE: Gains or losses associated with the valuation of inventory, although recognized, are not realized. Realization of the gain or loss occurs only when an item of inventory is sold or otherwise leaves the supply management stocking point.

Additionally, gains or losses recorded to the allowance account is the difference in amount between the standard price of a commodity item and the amount, if any, paid for that item, i.e., the difference between purchases at standard and purchases at cost. The Allowance for Gain/Loss account may be affected for a myriad of reasons -- increases/decreases to the standard price; differences between standard price and purchase cost; returns without credit; returns with partial credit, items "found" during physical inventory; etc.

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$-0-

3. PURCHASE OF INVENTORY ITEMS

	Dr 1521 Inventory Held for Sale	$3,500 1/	
*	Cr 1529.1B Purchases at Standard Price		$3,500 1/
*	Dr 1529.1C Purchases at Cost	$3,000 2/	
	Cr 2110 Applicable Accounts Payable		$3,000 2/

1/ The standard price of each item is $350 (10 x $350 = $3,500)
2/ The purchase cost of each item is $300 (10 x $300 = $3,000)
The unrealized gain per item is $3,500 - $3,000 = $ 500

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$-0-
B.3.	10	$ 3,500	$ 500	$ 3,000

4. CUSTOMER RETURNS OF MATERIAL WITHOUT CREDIT

Dr 1521 Inventory Held for Sale $1,050
* Cr 1529.1F Materiel Returns Without Credit Given $1,050

Entry to record a return of 3 inventory items from customers for which a credit is not granted. The Standard Price of each item is $350 (3 x $350 = $1,050).

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$-0-
B.3.	10	$ 3,500	$ 500	$ 3,000
B.4.	3	$ 1,050	$ 1,050	$-0-

5. CUSTOMER RETURNS OF MATERIAL WITH CREDIT

Dr 1521 Inventory Held for Sale $1,050 1/
Cr 1529.1D Materiel Returns at Standard $1,050 1/

Dr 1529.1E Materiel Returns - Credit Given $ 600 2/
Cr 1311 Accounts Receivable-Government-Current $ 600 2/

Entry to record a return of 3 inventory items from customers for which a credit of $200 per item is granted.
1/ The Standard Price of each item is $350 (3 x $350 = $1,050).
2/ $200 credit per item x 3 items = $600

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$-0-
B.3.	10	$ 3,500	$ 500	$ 3,000
B.4.	3	$ 1,050	$ 1,050	$-0-
B.5.	3	$ 1,050	$ 450	$ 600

6. SALE OF INVENTORY WITHOUT AN EXCHANGE

Dr 1311 Accounts Receivable-Government - Current $14,000 1/
Cr 5101 Revenue from Goods Sold - DBOF $14,000 1/

Dr 6500 Cost of Goods Sold $14,000 2/
Cr 1521 Inventory Held for Sale $14,000 2/

Entry to record sale of inventory and the associated cost of the goods sold. (Although the revenue and the cost of goods sold are, under the standard price method, initially recorded at the same value, a month-end adjusting entry adjusts the balance recorded as Cost of Goods Sold to the actual cost.)

1/ 40 items are sold for $350 per item for a total of $14,000.

2/ The standard price is $350 per item for a total inventory reduction of $14,000 (40 items x $350 = $14,000). [See month-end adjusting entry for adjustment of the "Cost of Goods Sold" account.]

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$ -0-
B.3.	10	$ 3,500	$ 500	$ 3,000
B.4.	3	$ 1,050	$ 1,050	$ -0-
B.5.	3	$ 1,050	$ 450	$ 600
B.6.	(40)	($14,000)		N/A

7. **SALE OF INVENTORY WITH AN EXCHANGE**

Dr 1523.1 Exchange (DLR) Inventory in Transit	$5,250 1/	
Dr 1311 Accounts Receivable-Government-Current	$2,700 2/	
Cr 5101 Revenue from Goods Sold - DBOF		$5,250 3/
Cr 1529.3A Estimated Repair Costs		$1,650 4/
Cr 1529.3B Allowance for Surcharge		$1,050 5/
Dr 6500 Cost of Goods Sold	$5,250 6/	
Cr 1521 Inventory Held for Sale		$5,250 6/

Entry to record sale of inventory and the associated cost of the goods sold when a reparable item is exchanged for a ready for issue item. Fifteen carcasses are exchanged for ready for issue items.

1/ 15 carcasses needing repair are to be sent, but have not yet been sent, in partial exchange for the items sold. The in-transit carcasses are recorded in Account 1523.1, "Exchange (DLR) Inventory in Transit," at their standard price of $5,250 [$350 Standard Price x 15 carcasses = $5,250. An estimated repair cost is established -- see note 4/ below.)

2/ The $2,700 amount billed is the difference between the $5,250 standard price of the items less the $2,550 value of the exchanged carcasses.

3/ 15 items sold for $350 per item = $5,250

4/ 15 carcasses x $110 estimated cost to repair a carcass = $1,650

5/ Approximate surcharge included in ready for issue inventory items. In this case, about 20%. [20% x $5250 = $1050]

6/ The standard price is $350 per item for a Inventory Held for Sale reduction of $5,250 (15 items x $350 = $5,250). [See month-end adjusting entry for adjustment of the "Cost of Goods Sold" account.]

Inventory Held For Sale

Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$ -0-
B.3.	10	$ 3,500	$ 500	$ 3,000
B.4.	3	$ 1,050	$ 1,050	$ -0-
B.5.	3	$ 1,050	$ 450	$ 600
B.6.	(40)	($14,000)		N/A
B.7.	(15)	($ 5,250)		N/A

Exchange (DLR) Inventory in Transit				
Transaction	Quantity	Standard Price	Allowance for Repair	Amount Paid (Cost)
B.7.	15	$ 5,250	$ 2,700	$ 2,550

8. RECEIPT OF EXCHANGE (DLR) INVENTORY

Dr 1523 Inventory Held for Repair	$5,250	
Cr 1523.1 Exchange (DLR) Inventory in Transit		$5,250

Entry to record receipt of exchange (DLR) inventory. The exchange item is recorded at its standard price. (A standard allowance for repair was established at the time the exchange transaction occurred -- see #7 above.)

Inventory Held for Repair				
Transaction	Quantity	Standard Price	Allowance for Repair	Amount Paid (Cost)
B.8.	15	$ 5,250	$ 2,700	$ 2,550

Exchange (DLR) Inventory in Transit				
Transaction	Quantity	Standard Price	Allowance for Repair	Amount Paid (Cost)
B.7.	15	$ 5,250	$ 2,700	$ 2,550
B.8.	(15)	($ 5,250)	~~$ 2,700~~	~~$ 2,550~~
Total	-0-	-0-	-0-	-0-

9. REVALUATION OF EXCESS OR BEYOND REPAIR INVENTORY

Inventory is revalued to its net realizable value (approximately, 2 percent of standard price) when (1) it is stratified as potential reutilization/disposal [i.e., potential excess], (2) regardless of stratification level, carries a condition code of "H - Condemned," "P - Reclamation," or "S - Scrap," or (3) determined to be beyond repair [i.e., not able to be repaired]. The loss on revaluation writedown shall be recognized in the period in which the writedown occurs. The loss shall not include unrealized gains associated with

that inventory. The illustration below is to recognize the loss associated with items stratified as potential excess.

Dr 1524	Inventory - Excess, Obsolete, and Beyond Repair	$ 70 1/	
Dr 1529.1A	Realization of Holding Gains/Losses	$ 819 2/	
Dr 7291.2	Excess/Obsolescence/Spoilage Loss	$2,611 3/	
Cr 1521	Inventory Held for Sale		$3,500 1/

Entry to reclassify inventory items when those items are stratified as potential excess. In this illustration, 10 items with a carrying value of $350 per item = $3,500 were declared potential excess. [NOTE: In this illustration, these potential excess items are to be subsequently transferred to reutilization. See "Month 2," transaction 3 on pages 85-86.]

1/ 10 items with a Standard Price of $350 per item = $3,500 were determined potentially excess. Items declared potentially excess should be valued at net realizable value (currently, approximately 2 percent of standard price).

2/ When items move between inventory categories, the allowance accounts in the respective inventory categories are decreased/ increased respectively. In this case, items are moving from the "Inventory Held for Sale" category to the "Inventory - Excess, Obsolete, and Beyond Repair" category. The amount of the allowance is determined through use of the percentage amount determined in the month-end adjustment of cost of goods (see item 10 below). The percentage amount, in this illustration, is 76.60 percent. 76.60 percent x $3,500 = $2,681 - $3,500 = $819.

3/ The $3500 carrying value of the inventory less the $70 salvage value and less the $819 allowance equals the $2,611 loss.

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$ -0-
B.3.	10	$ 3,500	$ 500	$ 3,000
B.4.	3	$ 1,050	$ 1,050	$ -0-
B.5.	3	$ 1,050	$ 450	$ 600
B.6.	(40)	($14,000)		N/A
B.7.	(15)	($ 5,250)		N/A
B.9.	(10)	($ 3,500)	($ 819)	N/A

Inventory - Excess, Obsolete, and Beyond Repair				
Transaction	Quantity	2% of Standard Price	Allowance Amount	Amount Paid (Cost)
B.9.	10	$ 70	N/A	N/A

10. MONTH END ADJUSTMENT OF INVENTORY VALUES TO LATEST ACQUISITION COST

a. The preceding processes are designed for those DBOF supply management business areas maintaining inventory values at standard [selling] price. For financial statement presentation, the inventory values at standard [selling] price must be adjusted to latest acquisition cost. DoD Components that value inventory at the standard (selling) price of that inventory shall revalue that inventory to its latest acquisition cost for financial reporting purposes.

b. The procedure to revalue inventory to its latest acquisition cost is to deduct the cost recovery (surcharge) amount and, if applicable, the prior year inflation amount from both the inventory at standard price value and the allowance for holding gain and loss account. For example, assume that the surcharge factor is 15 percent. Then, inventory at standard price would be reduced in valuation by 15 percent with an equal reduction (by dollar amount, not percentage amount) made to the allowance for holding gain loss account. If the potential excess and beyond repair (i.e., not repairable) inventory has been previously recorded in the financial inventory category, "Inventory - Excess, Obsolete, and Beyond Repair," should be recorded at its net realizable value and does not have an allowance account associated with it. If the entry to adjust the value of potential excess inventory has not been previously made, as indicated in transaction B.9. above, then the entry should be made at this time. The end-of-month entries to adjust inventory recorded at standard [selling] price to its latest acquisition cost are:

INVENTORY HELD FOR SALE

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.1Q	Latest Acquisition Cost Adjustment	$2,675	
Cr 1521	Inventory Held for Sale		$2,675

INVENTORY HELD FOR REPAIR

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.3B Estimated Exchange Costs	$1,050	
Cr 1523 Inventory Held for Repair		$1,050

NOTE: The following inventory accounts are not used in this illustration. However, the month-end adjusting entry for them, when they are applicable, are as follows:

INVENTORY IN TRANSIT FROM PROCUREMENT

Generally, inventory in transit from commercial sources is at acquisition cost and no month-end adjustment is necessary. However, if inventory in transit from commercial sources is valued at standard price, then the following is necessary to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.1Q Latest Acquisition Cost Adjustment
Cr 1521.1 Inventory in Transit from Procurement

INVENTORY IN TRANSIT FROM DoD ENTITIES

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.1Q Latest Acquisition Cost Adjustment
Cr 1521.2 Inventory in Transit from DoD Entities

INVENTORY HELD FOR FUTURE SALE

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.2 Allowance for Holding Gain/Loss -
Inventory Held for Future Sale
Cr 1522 Inventory Held for Future Sale

c. The result of applying the adjustment shall result in an equal, but opposite, adjustment for financial statement presentation purposes to the ending inventory value and that inventory's unrealized holding gain as shown below:

Inventory Category	Standard Price	Adjustment Amount	Latest Acquisition Cost
Inventory Held For Sale	$17,850	$2,675	$15,175
Inventory Held for Repair	$ 5,250	$1,050	$ 4,200
TOTAL	$23,100	$3,725	$19,375

Allowance Category	Pre-Adjustment Value	Adjustment Amount	Post-Adjustment Value
Latest Acquisition Cost Adjustment	$4,177	$2,675	$1,502
Allowance for Repair	$2,700	$1,050	$1,650
TOTAL	$6,877	$3,725	$3,152

d. The end of month adjustments shown above shall be reversed immediately after financial statement preparation. The reversing entries are:

INVENTORY HELD FOR SALE

Dr 1521 Inventory Held for Sale	$2,675	
Cr 1529.1Q Latest Acquisition Cost Adjustment		$2,675

INVENTORY HELD FOR REPAIR

Dr 1523 Inventory Held for Repair	$1,050	
Cr 1529.3B Estimated Exchange Costs		$1,050

NOTE: The following inventory accounts are not used in this illustration. However, the month-end adjusting entry for them, when they are applicable, are as follows:

INVENTORY IN TRANSIT FROM PROCUREMENT

Dr 1521.1 Inventory in Transit from Procurement
Cr 1529.1Q Latest Acquisition Cost Adjustment

INVENTORY IN TRANSIT FROM DoD ENTITIES

Dr 1521.2 Inventory in Transit from DoD Entities
Cr 1529.1Q Latest Acquisition Cost Adjustment

INVENTORY HELD FOR FUTURE SALE

Dr 1522 Inventory Held for Future Sale
Cr 1529.2 Allowance for Holding Gain/Loss -
Inventory Held for Future Sale

11. **MONTH-END ADJUSTMENT OF COST OF GOODS SOLD**

Dr 1529.1A Realization of Holding Gains/Losses	$4,504 1/	
Cr 6500 Cost of Goods Sold		$4,504 1/

In the preceding entries (transactions B.6. and B.7.), account 6500, "Cost of Goods Sold," was debited for the standard price of inventory sold. The purpose of this entry is to adjust account 6500 to the cost (vice standard price) of inventory sold. The standard price (i.e., sales price) will generally be more than the cost due to the inclusion of cost recovery elements in the selling price.

1/ **INVENTORY HELD FOR SALE**

	Cost	Unrealized Gain	Standard Price
Beginning Inventory	$27,500	$7,000	$34,500
Price Change		$ 500	$ 500
Purchases	$ 3,600	$2,000	$ 5,600
TOTAL	$31,100	$9,500	$40,600
Excess Inventory	($ 2,681)	($ 819)*	($ 3,500)
Cost of Goods Sold	($14,746)	($4,504)*	($19,250)
Ending Inventory (at Standard)	$13,673	$4,177	$17,850
LAC Adjustment (see B.10.)		($2,675)	($ 2,675)
Ending Inventory (at LAC)		$1,502	$15,175

* Cost of Goods Sold Computation

$9,500 Unrealized Gain ÷ $40,600 Standard Price = .234

.234 x $3,500 Excess Inventory at Standard Price = $819 gain reduction

.234 x $19,250 Goods Sold at Standard Price = $4,504 realized gain

$19,250 Goods Sold at Standard Price - $4,504 realized gain = $14,746

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$34,500	$7,000	$27,500
B.2.	-0-	$ 500	$ 500	$ -0-
B.3.	10	$ 3,500	$ 500	$ 3,000
B.4.	3	$ 1,050	$1,050	$ -0-
B.5.	3	$ 1,050	$ 450	$ 600
B.6.	(40)	($14,000)		N/A
B.7.	(15)	($ 5,250)		N/A
B.9.	(10)	($ 3,500)	($ 819)	N/A
B.11.	-0-		($4,504)	($14,746)
Total	51	$17,850	$4,177	$13,673

FINANCIAL STATEMENT PRESENTATION
(Prior to LAC Adjustment)
MONTH ONE

Cost of Material Sold from Inventory	Inventory Held For Sale	Inventory Held For Future Sale	Excess Inventory	Inventory Held for Repair	Total
(1) Beginning Inventory	$34,500			$ -0-	$34,500
(a) Less: Beginning Allowance	$ 7,000				$ 7,000
(b) Plus: Purchases at Cost	$ 3,000				$ 3,000
(c) Plus: Customer Returns - Credit Given	$ 600				$ 600
(d) Plus: DLR Exchange Credits				$2,550	$ 2,550
(e) Less: Inventory Losses Realized	$2,611				$2,611
Internal Movements between Inventory Classifications	($ 70)		$ 70		$ -0-
(2) Less: Ending Inventory	$17,850		$ 70	$5,250	$23,170
(a) Plus: Ending Allowance	$ 4,177			$2,700	$ 6,877
Cost of Goods Sold	$14,746		$ -0-	$ -0-	$14,746

FINANCIAL STATEMENT PRESENTATION
(After LAC Adjustment)
MONTH ONE

Cost of Material Sold from Inventory	Inventory Held For Sale	Inventory Held For Future Sale	Excess Inventory	Inventory Held for Repair	Total
(1) Beginning Inventory	$29,500			$ -0-	$29,500
(a) Less: Beginning Allowance	$ 2,000				$ 2,000
(b) Plus: Purchases at Cost	$ 3,000				$ 3,000
(c) Plus: Customer Returns - Credit Given	$ 600				$ 600
(d) Plus: DLR Exchange Credits				$2,550	$ 2,550
(e) Less: Inventory Losses Realized	$2,611				$2,611
Internal Movements between Inventory Classifications	($ 70)		$ 70		$ -0-
(2) Less: Ending Inventory	$15,175		$ 70	$4,200	$19,445
(a) Plus: Ending Allowance	$ 1,502			$1,650	$ 3,152
Cost of Goods Sold	$14,746		$ -0-	$ -0-	$14,746

C. MONTH TWO

1. PURCHASE OF INVENTORY ITEMS

Dr 1521 Inventory Held for Sale		$8,750 1/	
Cr 1529.1B Purchases at Standard Price			$8,750 1/
Dr 1529.1C Purchases at Cost		$7,750 2/	
Cr 2110 Applicable Accounts Payable Series			$7,750 2/

1/ The standard price of each item is $350 (25 x $350 = $8,750)
2/ The purchase cost of each item is $310 (25 x $310 = $7,750)
The unrealized gain per item is $8,750 - $7,7500 = $1,000

Entry to record $310 per item purchase of 25 inventory items with a standard price of $350 per item.

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$17,850	$4,177	$13,673
C.1.	25	$ 8,750	$1,000	$ 7,750

2. REPAIR OF EXCHANGED INVENTORY

Dr 1521 Inventory Held for Sale	$4,550 1/	
Dr 1524 Inventory - Excess, Obsolete, and Beyond Repair	$ 14 2/	
Dr 7291.2 Excess/Obsolescence/Spoilage Loss	$ 686 3/	
Cr 1523 Inventory Held for Repair		$5,250 4/
Dr 1529.1X Actual Repair Costs	$1,500 5/	
Cr 2111 Accounts Payable-Government-Current		$1,500 5/
Dr 1529.3A Estimated Repair Costs	$1,650 6/	
Dr 1529.3B Estimated Exchange Costs	$1,050 6/	
Cr 1529.1M Completed Inventory Repairs		$2,700 6/

1/ $4,550 = the $350 Standard Price x 13 repaired items. [Note that this amount does not equal the $5,250 amount recorded in account 1523, "Inventory Held for Repair." In this illustration, the reason for this is because although 15 items were sent for repair, the repair facility determined that 2 of the 15 exchanged items could not be repaired. [$350 Standard Price per item x 2 items = $700. $5,250 - $700 = $4,550].

2/ Two of the carcasses could not be repaired. The standard price of the items was $350 x 2 items = $700. The net realizable value is approximately 2 percent. $700 x 2% = $14.

3/ The loss is equal to the $700 standard price of the two items less the $14 net realizable value = $686.

4/ Upon receipt of repaired items, GLA 1523, "Inventory Held for Repair," is always reduced (credited) in the amount that was established for the repaired items.

5/ 13 of the exchanged carcasses could be repaired. $1,500 was the amount charged by the repair facility for 13 repaired carcasses.

6/ Upon receipt of repaired items, GLA 1529.3A and GLA 1529.3B are always reduced (debited) in the amount that was established for the repaired items.

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$17,850	$4,177	$13,673
C.1.	25	$ 8,750	$1,000	$ 7,750
C.2.	13	$ 4,550	$1,200	$ 3,350

Inventory Held For Repair				
Transaction	Quantity	Standard Price	Allowance for Repair	Amount Paid (Cost)
B.8.	15	$ 5,250	$ 2,700	$ 2,550
C.2.	(15)	($ 5,250)	($ 2,700)	($ 2,550)
Total	-0-	-0-	-0-	N/A

Inventory - Excess, Obsolete, and Beyond Repair				
Transaction	Quantity	2% of Standard Price	Allowance Amount	Amount Paid (Cost)
B.9.	10	$ 70	N/A	N/A
C.2.	2	$ 14	N/A	N/A

3. TRANSFER OF EXCESS, OBSOLETE, OR BEYOND REPAIR INVENTORY

a. Excess, Obsolete, and Beyond Repair Inventory Transferred by Stock Point to Defense Reutilization and Marketing Service (DRMS)

Dr 7291.2 Excess/Obsolescence/Spoilage Loss $ 84
Cr 1524 Inventory - Excess, Obsolete, and Beyond Repair $ 84

Entry recorded by stock point to transfer excess, obsolete, or beyond repair items to the DRMS.

Inventory - Excess, Obsolete, and Beyond Repair				
Transaction	Quantity	Salvage Value	Allowance Amount	Amount Paid (Cost)
B.9.	10	$ 70	N/A	N/A
C.2.	2	$ 14	N/A	N/A
C.3.a.	(12)	($ 84)	N/A	N/A
Total	-0-	-0-	N/A	N/A

b. Excess, Obsolete, and Beyond Repair Inventory Received by Defense Reutilization and Marketing Service (DRMS)

Dr 1765 Property Awaiting Disposal $ 84
Cr 7193 Other Miscellaneous Gains $ 84

Entry recorded by DRMS for the transferred value of items declared excess, obsolete, or beyond repair.

4. PHYSICAL INVENTORY ADJUSTMENTS

Dr 1521 Inventory Held for Sale $2,100 1/
Cr 1529.1K Physical Inventory Adjustments-Gain $2,100 1/

Differences between physical inventory counts and inventory records affect the balance of unrealized holding gains or losses. The adjustment to unrealized gains or losses shall be recorded at the current carrying value of the items (an increase to inventory for gains and a decrease to inventory for losses).

1/ Physical inventory shows that 6 more items exist than records show. (6 items x $350 Standard Price = $2,100 gain)

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$17,850	$4,177	$13,673
C.1.	25	$ 8,750	$1,000	$ 7,750
C.2.	13	$ 4,550	$1,200	$ 3,350
C.4.	6	$ 2,100	$ 2,100	N/A

5. SALE OF INVENTORY WITHOUT AN EXCHANGE

Dr 1311 Accounts Receivable-Government - Current $22,750 1/
Cr 5101 Revenue from Goods Sold - DBOF $22,750 1/

Dr 6500 Cost of Goods Sold $22,750 2/
Cr 1521 Inventory Held for Sale $22,750 2/

Entry to record sale of inventory and the associated cost of the goods sold. The sales price will generally be more than the latest acquisition cost due to the inclusion of cost recovery elements in the selling price.

1/ 65 items are sold for $350 per item for a total of $22,750.
2/ The standard price is $350 per item for a total inventory reduction of $22,750 (65 items x $350 = $22,750). [See month-end adjusting entry for adjustment of the "Cost of Goods Sold" account.]

Inventory Held For Sale				
Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$17,850	$4,177	$13,673
C.1.	25	$ 8,750	$1,000	$ 7,750
C.2.	13	$ 4,550	$1,200	$ 3,350
C.4.	6	$ 2,100	$2,100	N/A
C.5.	(65)	($22,750)		

6. MONTH END ADJUSTMENT OF INVENTORY VALUES TO LATEST ACQUISITION COST

a. The procedure to revalue inventory to its latest acquisition cost is to deduct the cost recovery (surcharge) amount and, if applicable, the prior year inflation amount from both the inventory at standard price value and the allowance for holding gain and loss account. For example, assume that the surcharge factor is 15 percent. Then, inventory at standard price would be reduced in valuation by 15 percent with an equal reduction (by dollar amount, not percentage amount) made to the allowance for holding gain loss account. If the potential excess and beyond repair (i.e., not repairable) inventory has been previously recorded in the financial inventory category, "Inventory - Excess, Obsolete, and Beyond Repair," should be recorded at its net realizable value and does not have an allowance account associated with it. If an entry to adjust the value of potential excess inventory has not been previously made, then the entry should be made at this time. The end-of-month entries to adjust inventory recorded at standard [selling] price to its latest acquisition cost are:

INVENTORY HELD FOR SALE

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.1Q	Latest Acquisition Cost Adjustment	$1,575	
Cr 1521	Inventory Held for Sale		$1,575

NOTE: The following inventory accounts are not used in this illustration. However, the month-end adjusting entry for them, when they are applicable, are as follows:

INVENTORY HELD FOR REPAIR

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.3B Estimated Exchange Costs
Cr 1523 Inventory Held for Repair

INVENTORY IN TRANSIT FROM PROCUREMENT

Generally, inventory in transit from commercial sources is at acquisition cost and no month-end adjustment is necessary. However, if inventory in transit from commercial sources is valued at standard price, then the following is necessary to remove, for financial reporting purposes, surcharges [and, if applicable, prior

year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.1Q Latest Acquisition Cost Adjustment
    Cr 1521.1 Inventory in Transit from Procurement

INVENTORY IN TRANSIT FROM DoD ENTITIES

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.1Q Latest Acquisition Cost Adjustment
    Cr 1521.2 Inventory in Transit from DoD Entities

INVENTORY HELD FOR FUTURE SALE

The purpose of the following entry is to remove, for financial reporting purposes, surcharges [and, if applicable, prior year inflation] from both the inventory at its standard price and unrealized holding gains. After this adjustment, the inventory will be at Latest Acquisition Cost. Immediately after financial report preparation, the entry shall be reversed.

Dr 1529.2 Allowance for Holding Gain/Loss - Inventory Held for Future Sale
    Cr 1522 Inventory Held for Future Sale

b. The result of applying the adjustment factor shall result in an equal, but opposite, adjustment for financial statement presentation purposes to the ending inventory value and that inventory's unrealized holding gain as shown below:

Inventory Category	Standard Price	Adjustment Amount	Latest Acquisition Cost
Inventory Held For Sale	$10,500	$1,575	$8,925

Allowance Category	Pre-Adjustment Value	Adjustment Amount	Post-Adjustment Value
Latest Acquisition Cost Adjustment	$2,677	$1,575	$1,102

c. The end of month adjustments shown above shall be reversed immediately after financial statement preparation. The reversing entries are:

INVENTORY HELD FOR SALE

Dr 1521 Inventory Held for Sale	$1,575	
Cr 1529.1Q Latest Acquisition Cost Adjustment		$1,575

NOTE: The following inventory accounts are not used in this illustration. However, the month-end adjusting entry for them, when they are applicable, are as follows:

INVENTORY HELD FOR REPAIR

Dr 1523 Inventory Held for Repair
Cr 1529.3 Allowance for Repairs

INVENTORY IN TRANSIT FROM PROCUREMENT

Dr 1521.1 Inventory in Transit from Procurement
Cr 1529.1Q Latest Acquisition Cost Adjustment

INVENTORY IN TRANSIT FROM DoD ENTITIES

Dr 1521.2 Inventory in Transit from DoD Entities
Cr 1529.1Q Latest Acquisition Cost Adjustment

INVENTORY HELD FOR FUTURE SALE

Dr 1522 Inventory Held for Future Sale
Cr 1529.2 Allowance for Holding Gain/Loss - Inventory Held for Future Sale

7. MONTH-END ADJUSTMENT OF COST OF GOODS SOLD

Dr 1529.1A Realization of Holding Gains/Losses	$5,800 1/	
Cr 6500 Cost of Goods Sold		$5,800 1/

In the preceding entry (transaction C.5.), account 6500, "Cost of Goods Sold," was debited for the standard price of inventory sold. The purpose of this entry is to adjust account 6500 to the cost (vice standard price) of inventory sold. The standard price (i.e., sales price) will generally be more than the cost due to the inclusion of cost recovery elements in the selling price.

1/ (See Following Page)

1/

INVENTORY HELD FOR SALE

	Cost	Unrealized Gain	Standard Price
Beginning Inventory	$13,673	$4,177	$17,850
Repaired DLR Transfer	$ 3,350	$1,200	$ 4,550
Gains on Inventory		$2,100	$ 2,100
Purchases	$ 7,750	$1,000	$ 8,750
TOTAL	$24,773	$8,477	$33,250
Cost of Goods Sold	($16,950)*	($5,800)*	($22,750)
Ending Inventory (at Standard)	$ 7,823	$2,677	$10,500
LAC Adjustment (see C.6.)		($1,575)	($ 1,575)
Ending Inventory (at LAC)		$1,102	$ 8,925

* Cost of Goods Sold Computation

$8,477 Unrealized Gain + $33,250 Standard Price = .2549
.2549 x $22,750 Goods Sold at Standard Price = $5,800 realized gain
$22,750 Goods Sold at Standard Price - $5,800 realized gain = $16,950

Inventory Held For Sale

Transaction	Quantity	Standard Price	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$17,850	$4,177	$13,673
C.1.	25	$ 8,750	$1,000	$ 7,750
C.2.	13	$ 4,550	$1,200	$ 3,350
C.4.	6	$ 2,100	$2,100	
C.5.	(65)	($22,750)		
C.7.		($22,750)	($5,800)	($16,950)
Total		$10,500	$2,677	$7,823

FINANCIAL STATEMENT PRESENTATION
(Prior to LAC Adjustment)
MONTH TWO

Cost of Material Sold from Inventory	Inventory Held For Sale	Inventory Held For Future Sale	Excess Inventory	Inventory Held for Repair	Total
(1) Beginning Inventory	$17,850		$ 70	$5,250	$23,170
(a) Less: Beginning Allowance	$ 4,177			$2,700	$ 6,877
(b) Plus: Purchases at Cost	$ 7,750			$1,500	$ 9,250
(c) Plus: Customer Returns - Credit Given					
(d) Plus: DLR Exchange Credits					
(e) Less: Inventory Losses Realized			$ 70	$ 700	$ 770
Internal Movements of Inventory	$ 3,350			($3,350)	$ -0-
(2) Less: Ending Inventory	$10,500			$ -0-	$10,500
(a) Plus: Ending Allowance	$ 2,677				$ 2,677
Cost of Goods Sold	$16,950		$-0-	$ -0-	$16,950

FINANCIAL STATEMENT PRESENTATION
(After LAC Adjustment)
MONTH TWO

Cost of Material Sold from Inventory	Inventory Held For Sale	Inventory Held For Future Sale	Excess Inventory	Inventory Held for Repair	Total
(1) Beginning Inventory	$15,175		$ 70	$4,200	$19,445
(a) Less: Beginning Allowance	$ 1,502			$1,650	$ 3,152
(b) Plus: Purchases at Cost	$ 7,750			$1,500	$ 9,250
(c) Plus: Customer Returns - Credit Given					
(d) Plus: DLR Exchange Credits					
(e) Less: Inventory Losses Realized			$ 70	$ 700	$ 770
Internal Movements of Inventory	$ 3,350			($3,350)	$ -0-
(2) Less: Ending Inventory	$ 8,925			$ -0-	$ 8,925
(a) Plus: Ending Allowance	$ 1,102			$ -0-	$ 1,102
Cost of Goods Sold	$16,950		$-0-	$ -0-	$16,950

Addendum 2

ACCOUNTING ILLUSTRATION

ACCOUNTING FOR INVENTORIES WHEN USING LATEST ACQUISITION COST PRACTICES

A. GENERAL

1. The Defense Logistics Agency records inventory at its latest acquisition cost. That value may change with each acquisition made during a fiscal year. The difference between the actual cost of items held in inventory and the value of those same items if they were acquired at the latest acquisition cost is an unrealized gain which will not become realized until that item is sold or otherwise leaves the supply management stocking point. Holding gain and loss accounts have been established to accumulate the value of holding gains and losses during the fiscal year. When inventory is classified as potential excess, sold or otherwise leaves the stocking point, the previously unrealized holding gain or loss is realized and recorded in account 1529.1A, "Realization of Holding Gains/Losses." The holding gains and accounts are:

*	1529.1A	Realization of Holding Gains/Losses
*	1529.1B	Purchases at Standard Price
*	1529.1C	Purchases at Cost
*	1529.1D	Materiel Returns at Standard Price
*	1529.1E	Materiel Returns - Credit Given
*	1529.1F	Materiel Returns Without Credit Given
*	1529.1G	Standard Price Changes-Gain
*	1529.1H	Accounting Adjustments-Gain
*	1529.1J	Assembly/Disassembly-Gain
*	1529.1K	Physical Inventory Adjustments-Gain
*	1529.1L	Incoming Shipments-Gain
*	1529.1M	Completed Inventory Repairs
*	1529.1N	Receipts of Materiel Without Charge
*	1529.1P	Other-Gain
*	1529.1Q	Latest Acquisition Cost Adjustment
*	1529.1R	Standard Price Changes-Loss
*	1529.1S	Accounting Adjustments-Loss
*	1529.1T	Assembly/Disassembly-Loss
*	1529.1U	Physical Inventory Adjustments-Loss
*	1529.1V	Incoming Shipments-Loss
*	1529.1W	Shrinkage and Other Adjustments-Loss
*	1529.1X	Actual Repair Costs
*	1529.1Y	Issues Without Reimbursement
*	1529.1Z	Other-Loss

NOTE: Every event that results in a change in the quantity of inventory, the value of existing inventory, or both should be reflected in one of the holding gain or loss accounts specified above. If one of the above accounts is not descriptive of a recurring and significant inventory event, then an additional holding gain/loss account(s) may be established for that purpose.

2. For financial statement presentation, inventory is shown at its latest acquisition cost. The cost of inventory items sold is shown, in accordance with Statement of Federal Financial Accounting Standards No. 3,

"Accounting for Inventory and Related Property," at an approximation of its historical (actual) cost.

3. The following simplified illustration provides an explanation, in accounting terms, of the accounting necessary to properly record the DBOF supply management inventory for those supply management business areas which maintain inventory values at the latest invoice price. The illustration demonstrates the affect on unrealized holding gains due to purchases, latest acquisition cost adjustments, inventory returns, and other transactions. The illustration also demonstrates computation necessary to properly adjust cost of goods sold to the actual cost of the items sold.

B. <u>MONTH ONE</u>

1. <u>ESTABLISH INITIAL INVENTORY ALLOWANCE AMOUNT</u>. As of October 1, 1994, general ledger account 1529.1, "Allowance for Holding Gain/Loss - Inventory Held for Sale," general ledger account 1529.2, "Allowance for Holding Gain/Loss - Inventory Held in Reserve for Future Sale," and general ledger account 1529.3, "Allowance for Repairs," should be established to identify cost recovery factors (i.e., surcharges), prior year inflation, repair costs, and write-down of potential excess at the same amount of the last adjustment contained in the FY 1994 Chief Financial Officer Act financial report submission. This is a one-time step to initially establish the allowance account at the same value as reported on the prior year CFO submission. For following years, the inventory allowance account will be continued at its then current amount. For illustration purposes, assume the initial allowance amount for "Inventory Held For Sale" is $2,000. The following tables are included to assist in the understanding of the inventory accounting process. The table to illustrate the beginning inventory position for "Inventory Held for Sale," is:

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500

2. <u>PURCHASE OF INVENTORY ITEMS</u>

Dr 1521	Inventory Held for Sale	$3,000	
Cr 2110	Applicable Accounts Payable Series		$3,000

Entry to record purchase of 10 inventory items at $300 per item. (If the purchase quantity and price is a representative purchase, then that price shall be the "Latest Acquisition Cost.")

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.2.	10	$ 3,000	$ -0-	$ 3,000

3. <u>ADJUSTMENT OF INVENTORY TO LATEST ACQUISITION COST</u>.

Dr 1521 Inventory Held for Sale $ 500
Cr 1529.1Q Latest Acquisition Cost Adjustment $ 500 1/

Entry to adjust value of other inventory items in stock to the latest acquisition cost when the recorded value of those items is LESS than the latest acquisition cost. [Assume that 100 items are in inventory and the previous latest acquisition cost was $295 per item. Those items require revaluation to the current latest acquisition cost of $300. The revaluation will then require recognition of a $500 unrealized gain -- 100 items @ $5 adjustment per item = $500.]

1/ Gains or losses associated with the valuation of inventory, although recognized, are not realized. Realization of the gain or loss occurs only when an item of inventory is sold or otherwise disposed.

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.2.	10	$ 3,000	$ -0-	$ 3,000
B.3.	N/A	$ 500	$ 500	N/A

4. CUSTOMER RETURNS OF MATERIAL WITHOUT CREDIT

Dr 1521 Inventory Held for Sale $900
Cr 1529.1F Materiel Returns Without Credit Given $900

Entry to record a return of 3 inventory items from customers for which a credit is not granted. The Latest Acquisition Cost of each item is $300 (3 x $300 = $900).

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.2.	10	$ 3,000	$ -0-	$ 3,000
B.3.	N/A	$ 500	$ 500	N/A
B.4.	3	$ 900	$ 900	$-0-

5. CUSTOMER RETURNS OF MATERIAL WITH CREDIT

Dr 1521 Inventory Held for Sale $900 1/
Cr 1529.1D Materiel Returns at Standard $900 1/

Dr 1529.1E Materiel Returns - Credit Given $600 2/
Cr 1311 Accounts Receivable-Government-Current $600 2/

Entry to record a return of 3 inventory items from customers for which a credit of $200 per item is granted.
1/ The LAC of each item is $300 (3 x $300 = $900).
2/ $200 credit per item x 3 items = $600

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.2.	10	$ 3,000	$ -0-	$ 3,000
B.3.	N/A	$ 500	$ 500	N/A
B.4.	3	$ 900	$ 900	$-0-
B.5.	3	$ 900	$ 300	$600

6. SALE OF INVENTORY

Dr 1311 Accounts Receivable-Government - Current	$19,250 1/	
Cr 5101 Revenue from Goods Sold - DBOF		$19,250 1/
Dr 6500 Cost of Goods Sold	$16,500 2/	
Cr 1521 Inventory Held for Sale		$16,500 2/

Entry to record sale of inventory and the associated cost of the goods sold.

1/ 55 items are sold for $350 per item for a total of $19,250.

2/ The latest acquisition cost is $300 per item for a total inventory reduction of $16,500 (55 items x $300 = $16,500). [See month-end adjusting entry for adjustment of the "Cost of Goods Sold" account.]

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.2.	10	$ 3,000	$ -0-	$ 3,000
B.3.	N/A	$ 500	$ 500	N/A
B.4.	3	$ 900	$ 900	$-0-
B.5.	3	$ 900	$ 300	$ 600
B.6.	(55)	($16,500)		

7. REVALUATION OF EXCESS INVENTORY

Dr 1524 Inventory - Excess, Obsolete, and Beyond Repair	$ 70 1/	
Dr 1529.1A Realization of Holding Gains/Losses	$ 319 2/	
Dr 7291.2 Excess/Obsolescence/Spoilage Loss	$2,611 3/	
Cr 1521 Inventory Held for Sale		$3,000 1/

Entry to reclassify inventory items when those items are stratified as potential excess. [NOTE: In this illustration, these potential excess items are transferred to reutilization and marketing in the following month. See "Month 2," transaction 3 on page 101.]

1/ 10 items with a carrying value of $300 per item = $3,000 were determined potentially excess. Items declared potentially excess should be valued at net realizable value (currently, approximately 2 percent of standard [sales] price -- in this

illustration, the sales price is $350 per item x 10 items = $3500 x 2 percent = $70).

2/ When items move between inventory categories, the allowance account in the respective inventory categories are decreased/ increased respectively. In this case items are moving from the "Inventory Held for Sale" category to the "Inventory Held for Future Sale" category. The amount of the allowance is determined by adding the net value of the allowance account from which the inventory is to be transferred and then dividing that net total by the number of items in inventory. In this case, the net total of the allowance account is $3,700 [$2,000 beginning balance + $500 price change gain + $1,200 gain on customer returns = $3,700]. $3,700 + 116 items = $31.90 per item x 10 items = $319. An alternative computation is to use the percentage amount determined in the month-end adjustment of cost of goods. That percentage amount, in this illustration is 89.37 percent. 89.37 percent x $3,000 = $2,681 - $3,000 = $319.

3/ The $3000 carrying value of the inventory less the $70 salvage value and less the $319 allowance equals the $2,611 loss.

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.2.	10	$ 3,000	$ -0-	$ 3,000
B.3.	N/A	$ 500	$ 500	N/A
B.4.	3	$ 900	$ 900	$-0-
B.5.	3	$ 900	$ 300	$600
B.6.	(55)	($16,500)		
B.7.	(10)	($ 3,000)	($ 319)	N/A

Inventory - Excess, Obsolete, and Beyond Repair				
Transaction	Quantity	2% of Standard Price	Allowance Amount	Amount Paid (Cost)
B.7.	10	$ 70	N/A	N/A

7. MONTH-END ADJUSTMENT OF COST OF GOODS SOLD

Dr 1529.1A	Realization of Holding Gains/Losses	$1,754 1/	
Cr 6500	Cost of Goods Sold		$1,754 1/

Entry to record sale of inventory and the associated cost of the goods sold. The sales price will generally be more than the latest acquisition cost due to the inclusion of cost recovery elements in the selling price.

1/

INVENTORY HELD FOR SALE

	Cost	Unrealized Gain (Loss)	LAC
Beginning Inventory	$27,500	$2,000	$29,500
Price Change		$ 500	$ 500
Purchases	$ 3,600	$1,200	$ 4,800
TOTAL	$31,100	$3,700	$34,800
Excess Inventory Transfer	($ 2,681)	($ 319)*	($ 3,000)
Cost of Goods Sold	($14,746)	($1,754)*	($16,500)
Ending Inventory	$13,673	$1,627	$15,300

* Cost of Goods Sold Computation

$3,700 Unrealized Gain + $34,800 LAC = .1063
.1063 x $3,000 Excess Inventory at LAC = $319 realized gain
.1063 x $16,500 Cost of Goods Sold at LAC = $1,754 realized gain
$16,500 Cost of Goods Sold at LAC - $1,754 realized gain = $14,746

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	100	$29,500	$2,000	$27,500
B.1.	10	$ 3,000	$ -0-	$ 3,000
B.2.	N/A	$ 500	$ 500	N/A
B.3.	3	$ 900	$ 900	$ -0-
B.4.	3	$ 900	$ 300	$ 600
B.5.	(10)	($ 3,000)	($ 319)	N/A
B.6.	(55)	($16,500)		
B.7.	N/A		($1,754)	($17,427)
Total	51	$15,300	$1,627	$13,673

FINANCIAL STATEMENT PRESENTATION
MONTH ONE

Cost of Material Sold from Inventory	Inventory Held For Sale	Inventory Held For Future Sale	Excess Inventory	Total
(1) Beginning Inventory	$29,500			$29,500
(a) Less: Beginning Allowance	$ 2,000			$ 2,000
(b) Plus: Purchases at Cost	$ 3,000			$ 3,000
(c) Plus: Customer Returns - Credit Given	$ 600			$ 600
(d) Plus: DLR Exchange Credits	N/A			
(e) Less: Inventory Losses Realized	$2,611			$2,611
Internal Movements between Inventory Classifications	($ 70)		$ 70	$ -0-
(2) Less: Ending Inventory	$15,300		$ 70	$15,370
(a) Plus: Ending Allowance	$ 1,627			$ 1,627
Cost of Goods Sold	$14,746			$14,746

C. MONTH TWO

1. PURCHASE OF INVENTORY ITEMS

Dr 1521 Inventory Held for Sale $7,750
Cr 2110 Applicable Accounts Payable Series $7,750

Entry to record purchase of 25 inventory items at $310 per item. (If the purchase quantity and price is a representative purchase, then that price shall be the "Latest Acquisition Cost.")

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$15,300	$1,627	$13,673
C.1.	25	$7,750	N/A	$7,750

2. ADJUSTMENT OF INVENTORY TO LATEST ACQUISITION COST.

Dr 1521 Inventory Held for Sale $ 510
Cr 1529.1Q Latest Acquisition Cost Adjustment $ 510 1/

Entry to adjust value of the 51 inventory items in stock to the latest acquisition cost. [The latest acquisition cost of the 51 items in stock was $300 per item. Those items require revaluation to the current latest acquisition cost of $310. The revaluation will then require recognition of a $510 unrealized gain -- 51 items @ $10 adjustment per item = $510.]

1/ Note that under the latest acquisition cost method, gains or losses associated with the valuation of inventory, although recognized, are not realized. Realization of the holding gain or loss occurs only when an item of inventory is sold.

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$15,300	$1,627	$13,673
C.1.	25	$7,750	N/A	$7,750
C.2.		$ 510	$ 510	N/A

3. TRANSFER OF EXCESS, OBSOLETE, OR BEYOND REPAIR INVENTORY

a. Excess, Obsolete, and Beyond Repair Inventory Transferred by Stock Point to Defense Reutilization and Marketing Service (DRMS)

Dr 7291.2	Excess/Obsolescence/Spoilage Loss	$ 70	
Cr 1524	Inventory - Excess, Obsolete, and Beyond Repair		$ 70

Entry recorded by stock point to transfer excess, obsolete, or beyond repair items to the DRMS.

Inventory - Excess, Obsolete, and Beyond Repair				
Transaction	Quantity	Salvage Value	Allowance Amount	Amount Paid (Cost)
B.6.	10	$ 70	N/A	N/A
C.3.a.	(10)	($ 70)	N/A	N/A
Total	-0-	-0-	N/A	N/A

b. Excess, Obsolete, and Beyond Repair Inventory Received by Defense Reutilization and Marketing Service (DRMS)

Dr 1765	Property Awaiting Disposal	$ 70	
Cr 7193	Other Miscellaneous Gains		$ 70

Entry recorded by DRMS for the transferred value of items declared excess, obsolete, or beyond repair.

4. PHYSICAL INVENTORY ADJUSTMENTS

Dr 1521	Inventory Held for Sale	$1,860 1/	
Cr 1529.1K	Physical Inventory Adjustments-Gain		$1,860 1/

Entry to record gains or losses due to differences between physical inventory counts and inventory records in inventory quantities. The gain or loss shall be recorded at the current carrying value of the items (an increase to inventory for gains and a decrease to inventory for losses).

1/ Physical inventory shows that 6 more items exist than records show. (6 items x $310 LAC = $1,860 gain)

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$15,300	$1,627	$13,673
C.1.	25	$7,750	N/A	$7,750
C.2.		$ 510	$ 510	N/A
C.4.	6	$1,860	$1,860	$-0-

5. SALE OF INVENTORY

Dr 1311 Accounts Receivable-Government - Current $22,750 1/
Cr 5101 Revenue from Goods Sold - DBOF $22,750 1/

Dr 6500 Cost of Goods Sold $20,150 2/
Cr 1521 Inventory Held for Sale $20,150 2/

Entry to record sale of inventory and the associated cost of the goods sold. The sales price will generally be more than the latest acquisition cost due to the inclusion of cost recovery elements in the selling price.

1/ 65 items are sold for $350 per item for a total of $22,750.

2/ The latest acquisition cost is $310 per item for a total inventory reduction of $20,150 (65 items x $310 = $20,150). [See month-end adjusting entry for adjustment of the "Cost of Goods Sold" account.]

Inventory Held For Sale				
Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$15,300	$1,627	$13,673
C.1.	25	$ 7,750	N/A	$7,750
C.2.		$ 510	$ 510	N/A
C.4.	6	$ 1,860	$1,860	$-0-
C.5.	(65)	($20,150)		

6. **MONTH-END ADJUSTMENT OF COST OF GOODS SOLD**

Dr 1529.1A	Realization of Holding Gains/Losses	$ 2,721 1/	
Cr 6500	Cost of Goods Sold		$ 2,721 1/

In the preceding entry (transaction C.5.), account 6500, "Cost of Goods Sold," was debited for the latest acquisition cost of inventory sold. The purpose of this entry is to adjust account 6500 to the historical cost (vice latest acquisition cost) of inventory sold.

1/

INVENTORY HELD FOR SALE

	Cost	Unrealized Gain	LAC
Beginning Inventory	$13,673	$1,627	$15,300
Purchases	$ 7,750		$ 7,750
Price Change		$ 510	$ 510
Physical Inventory Gain		$1,860	$ 1,860
TOTAL	$21,423	$3,997	$25,420
Cost of Goods Sold	($17,429)	($2,721)*	($20,150)
Ending Inventory	$ 3,994	$1,276	$ 5,270

* Cost of Goods Sold Computation

$3,977 Unrealized Gain + $29,450 LAC = .1350

.1350 x $20,150 Goods Sold at LAC = $2,721 realized gain

$20,150 Goods Sold at LAC - $2,721 realized gain = $17,429

Inventory Held For Sale

Transaction	Quantity	Latest Acquisition Cost	Allowance Amount	Amount Paid (Cost)
Beginning Inventory	51	$15,300	$1,627	$13,673
C.1.	25	$ 7,750	N/A	$ 7,750
C.2.		$ 510	$ 510	N/A
C.4.	6	$ 1,860	$1,860	$ -0-
C.5.	(65)	($20,150)		
C.6.			($ 2,721)	($17,429)
Total	17	$ 5,270	$ 1,276	$ 3,994

FINANCIAL STATEMENT PRESENTATION
MONTH TWO

Cost of Material Sold from Inventory	Inventory Held For Sale	Inventory Held For Future Sale	Excess Inventory	Total
(1) Beginning Inventory	$15,300		$ 70	$15,370
(a) Less: Beginning Allowance	$ 1,627			$ 1,627
(b) Plus: Purchases at Cost	$ 7,750			$ 7,750
(c) Plus: Customer Returns - Credit Given				
(d) Plus: DLR Exchange Credits	N/A			
(e) Less: Inventory Losses Realized			$ 70	$ 70
Internal Movements of Inventory				
(2) Less: Ending Inventory	$ 5,270			$ 5,270
(a) Plus: Ending Allowance	$ 1,276			$ 1,276
Cost of Goods Sold	$17,429		$-0-	$17,429

CHAPTER 56

OPERATING MATERIALS AND SUPPLIES

A. GENERAL

1. General Information. General information on materials and supplies may be found in Volume 4, Accounting Policy and Procedures," chapter 4, "Materials and Supplies," prescribes the accounting policy and related requirements necessary to establish financial control over DoD materials and supplies, including stockpile materials. This chapter includes information specific to the operation of the Defense Business Operation Fund and its activities.

2. Definition. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Excluded from "operating materials and supplies" are (a) goods that have been acquired for use in constructing real property, (b) stockpile materials, and (c) inventory. [See following distinction between operating materials and supplies and inventory.]

* 3. Distinction between Operating Materials and Supplies and Inventory. "Inventory" consists of items acquired for the specific purpose of sale to others. The Supply Management business area and Defense Commissary Agency are the only DBOF business areas that should hold inventory. All DBOF activities, including those within the Supply Management and Defense Commissary Agency business areas, generally hold operating materials and supplies for use in their normal day-to-day operations. As an example of the distinction, items when held by the Supply Management business area for sale are classified as "Inventory." Those same items, when sold to, for example, a Depot Maintenance activity for use in the process of repair or other operations of the activity are classified as "Operating Materials and Supplies." DBOF business area should report as operating materials and supplies items purchased both commercially and from the supply system including "office" supplies and other materials consumed in the performance of mission. *

4. Acceptance and Utilization of Customer-Furnished Material. Customer-furnished material shall be accepted and utilized only in those instances in which it is the general policy of the customer to furnish the materials involved. Customer-furnished materials shall be accounted for and reported to customers separately and shall be related to specific end products in such a manner as may be required by those customers.

B. CATEGORIES OF OPERATING MATERIALS AND SUPPLIES

1. The categories of operating materials and supplies are discussed in Volume 4, Chapter 4, of this Regulation. A summarization of those categories are:

a. Account 1511 - Operating Materials and Supplies Held for Use. Materials and supplies that do not exceed the amount expected to be used within 30 days unless justifying documentation supporting a supply in excess of 30 days is developed and maintained for review. A typical accounting entry to record Operating Materials and Supplies Held for Use is:

Dr 1511 Operating Materials and Supplies Held for Use
    Cr 2111 Accounts Payable-Government-Current

If the materials and supplies were originally recorded as "in transit," (see subparagraph d. below) the following entry is applicable:

Dr 1511 Operating Materials and Supplies Held for Use
    Cr 1514 Operating Materials and Supplies in Transit

b. Account 1512 - Operating Materials and Supplies Held for Future Use. Materials and supplies maintained because they are not readily available in the market or because it is likely they will be needed subsequently. While it is possible that items may be procured for direct placement in this category, it is more likely that items will migrate from Operating Materials and Supplies Held for Use. A typical accounting entry to record Operating Materials and Supplies Held for Use is:

Dr 1512 Operating Materials and Supplies Held for Future Use
    Cr 1511 Operating Materials and Supplies Held for Use

c. Account 1513 - Excess, Obsolete, and Unserviceable Operating Materials and Supplies. This consists of:

(1) Operating materials and supplies that exceed the amount on hand that can be used within one year.

(2) Operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations.

(3) Operating materials and supplies that are physically damaged and cannot be consumed in operations.

A typical accounting entry to record Excess, Obsolete, and Unserviceable Operating Materials and Supplies is:

Dr 1513 Operating Materials and Supplies - Excess, Obsolete
    and Unserviceable
Dr 7293 Other Miscellaneous Losses
    Cr 1511 Operating Materials and Supplies Held for Use
    Cr 1512 Operating Materials and Supplies Held for Future Use

d. Account 1514 - Operating Materials and Supplies in Transit. Materials and supplies for which an invoice has been received prior to physical receipt of the invoiced materials and supplies. A typical accounting entry to record Operating Materials in Transit is:

Dr 1514 Operating Materials and Supplies in Transit
Cr 2111 Accounts Payable-Government-Current

When the materials and supplies are received, the following accounting entry should be recorded:

Dr 1511 Operating Materials and Supplies Held for Use
Cr 1514 Operating Materials and Supplies in Transit

e. Account 1515 - Operating Materials and Supplies Under Development-DBOF. This account is used by the Defense Business Operations Fund to accumulate the cost of non-capital assets in the process of development or manufacture for use and retention by the performing activity. Upon completion of the asset, its value is transferred to account 1511. (Capital assets in the process of development or manufacture for use and retention by the performing business area activity are accounted for within account 1725.). A typical accounting entry to record Operating Materials Under Development is:

Dr 1515 Operating Materials and Supplies Under Development
Cr 6000 Series of Operating Program/Expenses

When the asset is completed, account 1515 shall be relieved through the following accounting entry:

Dr 1511 Operating Materials and Supplies Held for Use
Cr 1515 Operating Materials and Supplies Under Development

C. CONSUMPTION OF OPERATING MATERIALS AND SUPPLIES

1. Items to be Used or Consumed in Operations. Items purchased by DBOF activities to be consumed in the performance of their missions shall be recorded and reported as "Operating Materials and Supplies," (Account Series 1510) versus "Inventory," (Account Series 1520). "Operating Materials and Supplies" shall be valued and reported at historical cost.

2. Items Used or Consumed in Operations

a. Operating Expense. Operating materials and supplies consumed by DBOF activities in the performance of their missions shall be recorded and reported as an operating expense in the period they are issued for consumption (this is termed the "consumption method of accounting"). In certain cases, operating materials and supplies may be reported as an operating expense when purchased (this is termed the "purchase method of accounting"). The purchase method of accounting may be used within the Defense Business Operations Fund only for those operating materials and supplies that are not significant in dollar amount and are in the hands of the end user (e.g., performing cost center) for use in normal operations (as an example, pre-expended bin supplies). A typical accounting entry to record the consumption or issuance for consumption of operating materials and supplies is:

Dr 6121 Supplies and Materials
Cr 1511 Operating Materials and Supplies Held for Use

Entry to record consumption or issue for consumption of operating materials and supplies.

b. Work In Process. Some DBOF activities, primarily those involved in the provision of service-type operations, recognize operating materials and supplies as an expense of the period in which the materials and supplies are used or issued for use and, as a result, do not use a "work in process" general ledger account. Other DBOF activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, transfer the expense to a work in process account so that costs may be matched to revenue upon completion of the task. Guidance relating to accounting for work in process is included within chapter 57 of this volume. Items to be used or consumed in the production of goods and services for sale shall not be recorded within a work in process account until such time as they are issued for use or consumption in response to a customer order. Prior to such release, those items shall be classified as "Operating Materials and Supplies." A typical accounting entry to record the assignment of operating materials and supplies cost to work in process is:

Dr 1581 Work in Process - In House
Cr 6121 Supplies and Materials

Entry to record assignment of supplies and materials cost to work in process.

3. Disposition of Completed Products. Completed products in response to a customer order may not be retained as assets (i.e., finished goods) of DBOF activities. Upon completion, goods and services resulting from customer orders shall be billed promptly to customers. Delay or deferment of billing pending customer acceptance of finished work is not authorized. Parts and supplies manufactured for internal DBOF use shall be transferred, upon completion, to the operating materials and supplies account." A typical accounting entry to record the completion of a task previously recorded in work in process is:

Dr 6500 Cost of Goods Sold
Cr 1581 Work in Process - In House

Entry to transfer of work in process to cost of goods sold upon completion of a task previously recorded in work in process.

D. DISPOSAL OF EXCESS MATERIALS

1. Policy. It is DBOF policy that each business area record all of its costs and develop billing rates to recover its costs. In certain circumstances, however, exceptions may be granted to the policy that all costs must be recovered through billing rates. Exceptions are granted in the following ways:

a. Annual budget guidance provided by the Under Secretary of Defense (Comptroller) for the formulation of budgets and rates will identify specific gains or losses, if any, that may not need to be returned or recouped in the DBOF rate structure for the applicable budget year.

* b. Additional gains and losses, beyond those specified by the Under Secretary of Defense (Comptroller) in budget formulation guidance, also may be proposed as part of the Components annual budget submission. All such amounts must be approved by the Office of the Under Secretary of Defense (Comptroller) prior to being included in the Component's congressional/President's budget submission, and implemented. *

* c. Specific request that realized gains or losses be excepted from the requirement to be returned or recouped in DBOF rates should be submitted individually, on a case-by-case basis, and will be favorably considered only if the DoD Component can demonstrate that not recouping the loss through DBOF rates would be in the best interest of the Department of Defense and would not adversely affect the DBOF. *

* 2. Application of Policy. DBOF activities shall, in all instances, account for the loss resulting from the disposal of excess materials. However, if approved by the Office of the Under Secretary of Defense (Comptroller), the loss resulting from that disposal need not be included in subsequent year stabilized billing rates. As stabilized billing rates are developed to result in an Accumulated Operating Result of $-0-, the following entries shall be made: *

Dr 1513 Operating Materials and Supplies - Excess, Obsolete and Unserviceable
Dr 7293 Other Miscellaneous Losses
    Cr 1511 Operating Materials and Supplies Held for Use
    Cr 1512 Operating Materials and Supplies Held for Future Use

Entry to recognize loss resulting from disposal of excess, obsolete, or unserviceable operating materials and supplies.

Dr 3321 Net Results of Operations - DBOF
    Cr 7293 Other Miscellaneous Losses

Entry to close loss on excess operating supplies and materials to Net Operating Results.

Dr 3311.2 Cumulative Results of Operations-DBOF-Deferred
    Cr 3321 Net Results of Operations - DBOF

Entry to close Net Operating Results to Cumulative Results of Operations (aka Accumulated Operating Results). Note that general ledger account 3311, "Cumulative Results of Operations," is subdivided into two subsidiary accounts. Account 3311.1 is the account on which stabilized rates are developed to result in a $-0- balance. Account 3311.2 is the account in which losses and gains are recorded that are not, in the immediate future, to be included in stabilized rate development.

E. VALUATION OF OPERATING MATERIALS AND SUPPLIES

Operating materials and supplies shall be valued on the basis of historical (i.e., the amount paid for the materials and supplies by the receiving activity) cost. Donated operating materials and supplies shall be

valued at their fair value at the time of donation. Excess, obsolete, or unserviceable operating materials and supplies shall be valued at their estimated net realizable value. The difference between the carrying amount of the operating materials and supplies before identification as excess, obsolete or unserviceable and their estimated net realizable value shall be recognized as a loss (or gain) in current period operations. Any subsequent adjustments to net realizable value shall also be recognized as a loss (or gain).

F. FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS FOR OPERATING MATERIALS AND SUPPLIES. Notes accompanying financial statements shall include:

1. General composition of operating materials and supplies.

2. Basis for determining operating materials and supplies values; including valuation method and any cost flow assumption.

3. Changes from prior year accounting methods, if any.

4. Balances for each of the categories of operating materials and supples described above.

5. Restrictions on the use of materials.

6. Decision criteria for identifying the category to which operating materials and supplies are assigned.

7. Changes in the criteria for identifying the category to which operating materials and supplies are assigned.

CHAPTER 57

WORK IN PROCESS
AND
CONSTRUCTION IN PROCESS

A. WORK IN PROCESS

1. Contents of Work In Process. DBOF activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, record operating costs within a work in process account so that costs may be matched to revenue upon completion of the task. Work In Process consists of the costs of the direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative costs, used in producing customized personal property whether fabricated by the DoD or by a non-DoD organization under contract. When the costs are incurred by a Defense Business Operations Fund activity, the related costs, regardless of the source of funding, shall be accumulated by job order. Work in process accounts bring the costs under financial control and segregates them from current accounting period expenses. Examples of work in process are:

a. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets exclusive of construction in process.

b. Costs of maintaining and producing DoD equipment and inventory.

2. Types of Work In Process. Work In Process may consist of: Work In Process - In House; Work In Process - Contractor; Work In Process - Other Government Activities; and Work In Process - Government Furnished Material (GFM).

3. Basis for Valuation of Work In Process. Work in Process - In-House shall be recorded at the actual cost of direct labor and direct materials used in completion of job order and shall also include an allocation of indirect expenses and general and administrative (G&A) expenses. "Work In Process - Contractor" and "Work In Process - Other Government Plants" shall be valued at the amount paid or payable to those entities (based upon the unpaid amounts of requests for progress payments, cost reimbursements, and other invoices received). Work In Process - Government Furnished Material (GFM) shall be valued at the issued items' standard price and quantity. The GFM account shall be supported by records that identify quantities of items and dollar amounts by contract number.

4. Relief of Work In Process. The direct costs and allocated indirect costs and G&A expenses recorded in work in process accounts shall be transferred upon completion or termination of the job to cost of goods sold or, if the completed work is to be retained for use by the producing activity, to an applicable asset or, if it does not meet the DoD capitalization criteria, an expense account. ("Completion" includes that portion of work financially complete under the percentage of completion revenue recognition policy.) The amount relieved shall be the costs incurred that are associated with the revenue earned. The costs incurred ordinarily will not be equal to the revenue

earned. The costs incurred may be more than, or less than the revenue earned depending upon whether a loss or gain was taken on the work performed.

B. ACCOUNTING FOR OPERATIONS AND WORK IN PROCESS

1. Accounting for Operations. The following illustrate typical budgetary and proprietary accounting entries applicable to in-house work of customer orders. Operating expenses recorded in the 6000 series of the general ledger accounts should be designated as direct expense or indirect expense; for example, general ledger account 6111, "Personnel Compensation - Civilian," should be designated to separately record and accumulate direct civilian labor from indirect civilian labor. The following illustrative budgetary and proprietary accounting entries shall be recorded at the activity (performing) level only.

a. Payroll

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period
 Cr 4920 Accrued Expenditures - Unpaid - Reimbursable Program

Dr 6111 Personnel Compensation - Civilian (Direct)
Dr 6111 Personnel Compensation - Civilian (Indirect)
Dr 6113 Personnel Benefits - Civilian (Direct)
Dr 6113 Personnel Benefits - Civilian (Indirect)
 Cr 2211 Accrued Payroll - Civilian
 Cr 2213 Accrued Payroll - Civilian - Employer Share of Fringe Benefits

Budgetary and proprietary entries to record accrual of civilian employee compensation earned during the period.

b. Supplies and Materials

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period
 Cr 4920 Accrued Expenditures - Unpaid - Reimbursable Program

Dr 1511 Operating Materials and Supplies Held for Use
 Cr 2113 Accounts Payable - Public - Current

Budgetary and proprietary entries to record invoice for supplies and materials received.

Dr 6121 Supplies and Materials (Direct)
Dr 6121 Supplies and Materials (Indirect)
 Cr 1511 Operating Materials and Supplies Held for Use

Proprietary entry to record issue of supplies and materials Parts and materials issued to a specific job shall be recorded as a direct cost. Parts and materials issued for the general use of a cost center (production indirect) or for general administration of

an activity (G&A) shall be recorded as an indirect cost. (There is no budgetary entry for movement of amounts between proprietary accounts.)

c. Assignment of Direct Costs

Dr 1581 Work In Process - In-House
  Cr 6111 Personnel Compensation - Civilian (Direct)
  Cr 6113 Personnel Benefits - Civilian (Direct)
  Cr 6121 Supplies and Materials (Direct)

Periodic, but not less than monthly, entry to record assignment of direct costs to work in process.

d. Allocation of Indirect Costs

Dr 1581 Work In Process - In-House
  Cr 6600 Applied Overhead

Periodic, but not less than monthly, entry to record allocation of indirect expenses to work in process.

e. Payment of expenses incurred

Dr 4920 Accrued Expenditures - Unpaid - Reimbursable Program
  Cr 4940 Accrued Expenditures - Paid - Reimbursable Program

Dr 2211 Accrued Payroll - Civilian
Dr 2213 Accrued Payroll - Civilian - Employer Share of Fringe Benefits
Dr 2113 Accounts Payable - Public - Current
  Cr 1012.1 Funds Disbursed - Operating Program

Entry to record payment of civilian payroll and other expenses.

f. Adjustment of Over and Under Applied Overhead

Dr 6600 Applied Overhead
Dr 7293 Other Miscellaneous Losses
  Cr 7193 Other Miscellaneous Gains
  Cr 6111 Personnel Compensation - Civilian (Indirect)
  Cr 6113 Personnel Benefits - Civilian (Indirect)
  Cr 6121 Supplies and Materials (Indirect)
  Cr 6125 Depreciation of Equipment

Periodic, but not less than annual, entry to record closure of indirect expenses to the applied overhead account. Variances between actual indirect expenses and applied indirect expenses are accounted for as a gain or loss as illustrated above.

2. Accounting for Work in Process. Four "Work in Process" subsidiary accounts control applicable work, payments, and property that receive special attention. "Work in Process-In-House," "Work in Process - Contractor," and "Work in Process - Other Government Activities," identify the performing

activity. "Work in Process - Government-Furnished Material," identifies that portion of Government property furnished to contractors and subcontractors for the performance of DoD contracts for other than real property.

a. Work in Process - In-House (Account 1581). "Work in Process - In-House" is used to record the cost of work in process performed by DoD personnel. A subsidiary account shall be maintained to accumulate the costs of each job order and facilitate the transfer of costs to the cost of goods sold account. Sources of entries to this account include billings under contracts for material, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed work in process; and documented losses. The following illustrate the most common entries to this account:

(1) Dr 1581 Work in Process - In-House
Cr 6000 Expense Accounts series (Direct)

To record the assignment of costs incurred.

(2) Dr 1581 Work in Process - In-House
Cr 6600 Applied Overhead

To record the allocation of applied indirect and other overhead costs to work in process.

(3) Dr 1581 Work in Process - In-House
Cr 1766 Equipment Not in Use

To record the value of equipment incorporated into DoD in-house work in process.

(4) Dr 1581 Work in Process - In-House
Cr 1582 Work in Process - Contractor
Cr 1583 Work in Process - Other Government Activities
Cr 1584 Work in Process - Government-Furnished Material

To record work performed by other entities (subcontractors) that is to be incorporated into work that will be completed in-house.

(5) Dr 6500 Cost of Goods Sold
Cr 1581 Work in Process - In-House

To record the value of DoD in-house work in process that is completed in response to a customer order.

b. Work in Process - Contractor (Account 1582). "Work in Process - Contractor" is used to record the cost of work in process performed by DoD contractors. Subsidiary accounts shall be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include contractor requests for progress payments, invoices, payment vouchers, property acceptance documents, accounting records,

and documented losses. The following illustrate the most common entries to this account:

(1) Contract Work on Customer Orders

Dr 4614 Uncommitted/Unobligated Allotments -
        Reimbursable Program - Current Period
    Cr 4820 Undelivered Orders - Reimbursable Program

Issuance of order to contractor to perform work.

(2) Progress Payment Made To Contractor

Dr 4820 Undelivered Orders - Reimbursable Program
    Cr 4920 Accrued Expenditures - Unpaid -
        Reimbursable Program

Dr 1582 Work In Process - Contractor
    Cr 2113 Accounts Payable - Public - Current
    Cr 2130 Contract Holdbacks

Progress billing received from contractor for partial completion of ordered work (A portion is withheld from payment pending successful completion of contract).

Dr 4920 Accrued Expenditures - Unpaid - Reimbursable Program
    Cr 4940 Accrued Expenditures - Paid - Reimbursable Program

Dr 2113 Accounts Payable - Public - Current
    Cr 1012.1 Funds Disbursed - Operating Program

Progress payment made to contractor for partial completion of ordered work.

(3) Contractor Delivery of Ordered Work

Dr 4820 Undelivered Orders - Reimbursable Program
  Dr/Cr 4614 Uncommitted/Unobligated Allotments -
        Reimbursable Program - Current Period
        (If the Accrued Expenditure - Unpaid differs
        from the amount of the undelivered order.)
    Cr 4920 Accrued Expenditures - Unpaid - Reimbursable
        Program

Dr 1582 Work In Process - Contractor
Dr 2130 Contract Holdbacks
    Cr 2113 Accounts Payable - Public - Current

Final billing received from contractor for delivery of ordered work.

(4) Release of Delivered Work to In-House Work

Dr 1581 Work in Process - In-House
  Cr 1582 Work in Process - Contractor

To record the liquidation of "Work in Process - Contractor" when related work is to be incorporated into other work being performed in-house.

(5) Release of Delivered Work to Customer

Dr 6500 Cost of Goods Sold
  Cr 1582 Work in Process - Contractor

To record the liquidation of "Work in Process - Contractor" when related work is completed and accepted for delivery to a customer in response to its order.

c. Work in Process - Other Government Activities (Account 1583). "Work in Process - Other Government Activities" is used to record the cost of work in process performed by other Federal Government Agencies. A subsidiary account shall be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include interagency agreements, invoices, payment vouchers, property acceptance documents, and documented losses. The following illustrate the most common entries to this account:

(1) Dr 1583 Work in Process - Other Government Activities
  Cr 2111 Accounts Payable - Government - Current

To record value of work performed by another Government Agency as represented by requests for progress payments.

(2) Dr 1581 Work in Process - In-House
  Cr 1583 Work in Process - Other Government Activities

To record the liquidation of "Work in Process - Other Government Activities" when related work is to be incorporated into other work being performed in-house.

(3) Dr 6500 Cost of Goods Sold
  Cr 1583 Work in Process - Other Government Activities

To record the liquidation of "Work in Process - Other Government Activities" when related work is completed and accepted for delivery to a customer in response to its order.

d. Work in Process - Government-Furnished Material (Account 1584). "Work in Process - Government-Furnished Material" is used to record the value of that portion of Government personal property furnished to contractors and subcontractors (including other Federal Agencies) for the performance of DoD contracts. Government property, in this case, includes all personal property acquired directly by the Department of Defense and made available for incorporation into personal property end products to be delivered under DoD

contracts or to be consumed or expended in the performance of those contracts. A subsidiary account shall be maintained for each contractor that is furnished Government property. The subsidiary accounts shall be subdivided by contract. Increases to this account shall be supported by documentation evidencing issues of Government material to contractors, whether from inventory or from another contractor in accordance with DoD instructions. Decreases to this account shall occur only when the end item is accepted by the Department of Defense and received into inventory, or the material is returned to inventory or otherwise disposed of at DoD's direction. Periodically, but at least annually, this account shall be reconciled with the property accountability records maintained by the contractor. This reconciliation involves coordination with the assigned property administrator for the contract. Property administrators shall be provided financial data on the value of GFM for use in completing contract close out or termination. On contract completion or termination the account shall be adjusted to reflect the disposition of unused GFM provided to the contractor for use in meeting contractual requirements. Sources for entries to this account include shipping and issue documents, property acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses. The following illustrate the most common entries to this account:

(1) Dr 1584 Work in Process - Government-Furnished Material
    Cr 1511 Operating Materials and Supplies Held for Use
    Cr 1766 Equipment Not in Use

To record the value of Government property furnished to contractors for the performance of DoD contracts for other than real property.

(2) Dr 1511 Operating Materials and Supplies Held for Use
    Dr 1766 Equipment Not in Use
    Dr 6120 Other Services
    Cr 2113 Accounts Payable - Public - Current
    Cr 1584 Work in Process-Government-Furnished Material

To record the value of Government property that is:
(a) Incorporated into end products accepted by DoD for final payment.
(b) Consumed or expended in the performance of DoD contracts.

(3) Dr 1511 Operating Materials and Supplies Held for Use
    Dr 1766 Equipment Not in Use
    Cr 1584 Work in Process-Government-Furnished Material

To record the value of Government-provided property returned by the contractor.

(4) Dr 1320 Claims Receivable-Public or Other Losses
    Cr 1584 Work in Process-Government-Furnished Material

To record claim for the loss, damage, or destruction of Government property furnished in connection with DoD contracts.

C. ACCOUNTING FOR CONSTRUCTION IN PROCESS

1. Purpose. The "Construction in Process" accounts are used to accumulate costs of DoD real property construction projects. Included in this category is equipment that is installed as an integral part of the real property and that normally cannot be removed without dismantling the property. Examples of such equipment include heating and air conditioning systems, overhead cranes, elevators, etc. These costs include direct labor, direct material, purchased services and overhead. All of these costs, including those financed as "minor construction," are recorded in "Construction in Process" accounts as long as the construction project is expected to meet the DoD capitalization criteria. The recording of costs in "Construction in Process" accounts brings the costs under financial control and segregates them from expenses.

2. Construction Overhead. Construction overhead includes any cost of construction in process that benefits more than a single construction project. Overhead may include costs for supervision and other indirect labor, supplies and materials, transportation, depreciation of other assets used in construction of the asset in process, etc. Construction overhead must be collected in cost pools and allocated to specific construction projects in proportion to the benefits received. Often, a common single element such as square feet, direct labor hours, direct labor dollars, etc. is used to allocate overhead costs. However, other methods, such as total cost, may also be used. The objective is to select an overhead allocation base that best represents the beneficial or causal relatonship between the expenses incurred and all benefitting or causing segments.

3. Subsidiary Accounts. There are four "Construction in Process" subsidiary accounts to control applicable work and property that receive special attention. "Construction in Process - In-House," "Construction in Process - Contractor," and "Construction in Process - Other Government Agencies" identify who is performing the construction. "Construction in Process - Government-Furnished Material" identifies that portion of Government property furnished to contractors and subcontractors for the performance of DoD construction contracts.

4. Construction Funded by Other than the DBOF. Construction in process at a DBOF activity, but not funded by the DBOF activity, shall not be accounted for as construction in process by the DBOF activity although the asset, when completed, will be used in DBOF operations. Construction in process of this nature is, as a rule, financed by a Military Construction appropriation and is accounted for by the DoD construction agent (the Army Corps of Engineers or Naval Facilities Engineering Command). The DoD construction agent either performs or contracts for the actual work, as applicable, when it is responsible for the construction. The DoD accounting entity that is to receive the constructed property financed by other than DBOF funds does not account for the construction costs until it accepts accountability for the completed asset.

5. Termination of Projects. When construction projects are terminated before completion, the circumstances must be examined carefully to determine suitable write-offs and other applicable accounting adjustments.

6. Construction in Process (Account 1720)

a. "Construction in Process" is used to record the costs of direct labor, direct material, and overhead incurred in the construction of property and plant. On completion, these costs shall be transferred to the proper capital asset account as the acquisition cost of the item.

b. This account is a summary account used for financial control and reporting purposes. No entries are posted to this account.

7. Construction in Process - In-House (Account 1721)

a. "Construction in Process - In-House" is used to record the cost of construction performed by DoD personnel.

b. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property account.

c. The following entries illustrate the most common use of this account:

(1) Dr 1721 Construction in Process - In-House
Cr 1511 Operating Materials and Supplies Held for Use
Cr 1750 Equipment
Cr 6000 Expense accounts series

To record the costs incurred by the Department of Defense for construction in process.

(2) Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Cr 1721 Construction in Process - In-House

To record the value of DoD in-house construction projects completed.

d. Sources of entries to this account include billings under contracts for materials, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed construction projects; and documented losses.

8. Construction in Process - Contractor (Account 1722)

a. "Construction in Process - Contractor" is used to record the value of work performed by contractors other than other Government Agencies in accordance with the terms of the applicable construction contracts. Progress payments for such work are discussed in Subpart 32.5 of the Federal Acquisition Regulation. Other types of payments, such as cost reimbursements also are included in this account.

b. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property account.

c. The following entries illustrate the most common use of this account:

(1) Dr 1722 Construction in Process - Contractor
Cr 2113 Accounts Payable - Public - Current

To record the allowable costs of construction in process reported by contractors other than Federal Government Agencies.

(2) Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Cr 1722 Construction in Process - Contractor

To transfer completed projects to the applicable real property accounts.

d. Sources of entries to this account include contracts, contractor requests for progress payments, invoices, payment vouchers, construction acceptance documents, accounting records, and reports of survey.

9. Construction in Process - Other Government Activities (Account 1723)

a. "Construction in Process - Other Government Activities" is used to record the value of work performed by other Federal Agencies for the construction of facilities, utilities, and ground improvements not yet accepted by the Department of Defense.

b. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property account.

c. The following entries illustrate the most common use of this account:

(1) Dr 1723 Construction in Process - Other Government Activities
Cr 2111 Accounts Payable - Government - Current

To record the allowable costs paid for construction being performed by another Federal Agency.

(2) Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Cr 1723 Construction in Process - Other Government Activities

To transfer completed projects to the applicable real property accounts.

d. Sources of entries to the "Construction in Process - Other Government Activities" account include invoices, payment vouchers, construction acceptance documents, and reports of survey.

10. <u>Construction in Process-Government-Furnished Material (Account 1724)</u>

a. "Construction in Process - Government-Furnished Material" is the account for recording the value of that portion of Government property furnished to contractors and subcontractors (including other Federal Agencies) for the performance of DoD construction contracts. "Government property" in this case includes all personal property acquired directly by the Department of Defense and made available for incorporation into construction end products to be delivered under DoD construction contracts or to be consumed or expended in the performance of those construction contracts.

b. Subsidiary accounts shall be maintained for each contractor and contract that is furnished Government property.

c. The following entries illustrate the most common use of this account:

(1) Dr 1724 Construction in Process - Government-Furnished Material
Cr 1511 Operating Materials and Supplies Held for Use
Cr 1750 Equipment

To record the value of Government property furnished to contractors for the performance of DoD construction contracts.

(2) Dr 1730 Buildings (a)
Dr 1740 Other Structures and Facilities (a)
Dr 6000 Expense Accounts series (b)
Cr 1724 Construction in Process - Government-Furnished Material

To record the value of Government property that is as follows:
(a) Incorporated into or attached to a construction end product accepted by the Department of Defense.
(b) Consumed or expended in the performance of DoD construction contracts.

(3) Dr 1511 Operating Materials and Supplies Held for Use
Dr 1750 Equipment
Cr 1724 Construction in Process - Government-Furnished Material

To record the value of Government property returned by contractors.

(4) Dr 1320 Accounts Receivable - Claims Receivable - Public
Cr 1724 Construction in Process - Government-Furnished Material

To record a claim against a contractor for the value of the loss, damage, or destruction of Government property furnished in connection with DoD construction contracts.

(5) Dr 7293 Other Miscellaneous Losses
Cr 1724 Construction in Process - Government-Furnished Material

To record the nonrecoverable value of the loss, damage, or destruction of Government property furnished in connection with DoD construction contracts.

d. Sources of entries to this account include shipping and issue documents, construction acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses.

11. Capital Assets Under Development-DBOF (Account 1725)

a. "Capital Assets Under Development-DBOF" is the account used by the Defense Business Operations Fund to accumulate the cost of capital assets that is being manufactured, constructed, or otherwise developed for use and
* retention by the performing activity. (General ledger account 1515, "Operating *
* Materials and Supplies Under Development," is the counterpart of this account *
* used to accumulate the cost of non-capital assets -- See Chapter 56.) The *
total cost to develop or manufacture a capital asset consists of, but is not limited to; direct and indirect labor, directly related material, contractual and reimbursable support cost, applicable overhead, and allocated general and administrative costs incurred in the development or manufacture of a capital asset. Software development (programs, routines, and subroutines) cost shall also include the computer operating costs for testing, developing, and parallel processing. The total cost of developing or manufacturing assets for use by any segment of the business area, including installation and other costs necessary to place the asset in use, shall be accumulated in the construction-in-process general ledger account 1725, "Capital Assets Under Development-DBOF" Upon completion, delivery and installation of the developed or manufactured asset, the account shall be relieved and the amount in that account capitalized to the applicable asset account. The capital asset shall then be depreciated by the business area at which it is installed.

b. The following entries illustrate the most common use of this account:

(1) Dr 1725 Capital Assets Under Development-DBOF
Cr 6000 Expense Accounts series (Direct)

To record the assignment of costs incurred.

(2) Dr 1725 Capital Assets Under Development-DBOF
Cr 6600 Applied Overhead

To record the allocation of applied indirect and other overhead costs to assets under development.

(3) Dr 1750 Equipment
Dr 1830 Automated Data Processing Software
Cr 1725 Capital Assets Under Development-DBOF

To record the value of completed assets to their applicable asset classification.

CHAPTER 58

CAPITAL ASSETS

A. CAPITAL INVESTMENT PROGRAM

1. General Information. General information on capital assets may be found in Chapter 6, "Fixed Assets," Volume 4 of this regulation.

2. Purpose. This chapter provides guidance on the Capital Investment Program for the Defense Business Operations Fund (DBOF) and prescribes the accounting principles and policy that shall be followed in accounting for the Capital Investment Program.

3. Overview

a. The primary goal of the Capital Investment Program within the DBOF is to establish a capability for reinvestment in the infrastructure of business areas in order to facilitate mid and long term cost reductions. The objective is to improve product and service quality and timeliness, reduce costs and foster comparable and competitive business operations. The Capital Investment Program provides the framework for planning, coordinating, and controlling DBOF resources and expenditures to obtain capital assets.

b. This policy applies to all activities, or groups of activities, within the Department of the Army, Department of the Navy, Department of the Air Force, or a Defense Agency chartered under the DBOF.

B. POLICY

1. Managers at DBOF activities shall identify, prioritize, justify, and budget for capital asset purchases.

2. The capital investment program shall be carried out within the guidelines established by public law, DoD policies, and other regulatory constraints.

3. Only those capital investment projects that have been included in a President's budget for the DoD Component may be financed through the Capital Investment Program except that, under certain circumstances, as prescribed in paragraph C.5., during the year of execution, substitutions may be made for projects when operational necessity warrants.

4. The Capital Investment Program shall not be used to establish an in-house capability for operations that are more economically available through commercial contract except as permitted under OMB Circular A-76, "Performance of Commercial Activities."

5. All capital assets developed, manufactured or otherwise procured by a activity for use of that activity shall be funded through the DBOF capital budget, except those capital assets identified in paragraph D.5. below.

6. DBOF reimbursement rates shall include an amount estimated, considering the expected workload, to be sufficient to fund the approved Capital Investment Program.

7. Projects that meet the DoD investment capitalization threshold, both as to cost and useful life, must be:

a. capitalized and depreciated,

b. funded as part of the capital budget, and

c. accommodated within approved capital budget authority limits.

8. Projects that meet the DoD investment capitalization threshold also reduce the available capital budget authority.

9. Projects that fail to meet the DoD investment capitalization threshold shall be funded as an operating expense.

10. Each DoD Component will develop procedures to ensure that:

a. Capital investment funds are used only for approved projects.

b. Every attempt is made to effect timely installation and to realize productivity improvements estimated in budget submissions.

11. Management improvement initiatives shall be expensed as provided in Chapter 62, paragraph E.2. unless specifically directed otherwise by the Under Secretary of Defense (Comptroller).

C. CAPITAL INVESTMENT PROGRAM REQUIREMENTS

1. Each proposed acquisition of a capital investment shall be documented and reviewed to ensure that the asset satisfies all of the following criteria:

a. Is more economically feasible to purchase than to lease.

b. Meets the Department's long-range planning and programming objectives as identified in long range strategic plans.

c. Results in satisfying a documented need that cannot be met as effectively and efficiently by existing equipment and facilities.

d. Complies with DoD Directive 4275.5, "Acquisition and Management of Industrial Resources" and DoD Directive 4270.4, "Unspecified Minor Construction, Emergency Construction, and Restoration of Damaged or Destroyed Facilities," as well as, other applicable policies and regulations governing the lease and acquisition of equipment and facilities.

e. Includes workload projections that take into account the results of interservice decisions, workload posture planning decisions, readily available commercial alternatives, and other reasonable options for accomplishing workload.

f. Accomplishes the objective for which the capital asset is justified. The criteria should include, but is not limited to: improved efficiency (savings) or effectiveness; required new capability and capacity that cannot be met with current equipment or facilities; replacement of unsafe, beyond economical repair, or inoperative and unusable capital assets; and mandated environmental, hazard waste reduction, or regulatory agency (state, local or Federal) requirements.

g. Meets or exceeds the DoD capitalization criteria.

h. Includes, as appropriate, a pre-investment cost or economic analysis that identifies the reasons and associated expected benefits of the purchase in accordance with the requirements at paragraph F. of this chapter for an analysis for DBOF capital investments. An economic analysis must be completed prior to requesting a capital asset be included (1) in the Office of the Secretary of Defense (OSD) budget submission, (2) in the President's Budget submission, or (3) in any request for substitution or reprogramming involving a capital project.

2. A post-investment analysis, as required by paragraph F.10. of this chapter, will be prepared annually by each DoD Component in accordance with the requirements for an economic analysis for DBOF capital investments.

3. Documentation supporting capital investment projects requests shall be prepared in accordance with the requirements in paragraph F. of this chapter for an economic analysis for DBOF capital investments. The economic analysis and the post-investment analysis documentation will be retained and remain available for review, audit or evaluation for five years after the capital asset is placed in use.

4. Capital Investment Limitations

a. When a request for capital investment is granted, the capital budget section of the Annual Operating Budget (AOB) will designate the maximum amount of funds that may be committed and obligated for capital investments.

b. With the exception of those capital assets identified in paragraph D.5. below, capital investments will be limited to the capital budget amount approved in the AOB.

c. The AOB will list separately each capital project with costs that are estimated to be equal to, or greater than $500,000. Projects estimated to cost less than $500,000 will not be listed separately on the AOB, but the AOB will identify, by category--minor construction, equipment, automated data processing equipment (ADPE), and software, the total amount approved for all such projects. Approved funding limits for capital budget obligations will be provided as dollar value limitations within program year, and for all program years available for execution in the fiscal year that the AOB is issued. A DBOF activity may purchase, develop, manufacture, construct, or otherwise acquire approved capital assets only to the extent that amounts are authorized on an approved AOB. The DoD Components will list all approved capital projects in AOBs subsequently issued to subordinate commands and activities.

d. Section 342, "Capital Asset Subaccount," of the National Defense Authorization Act for Fiscal Year 1993 (Public Law 102-484) provides that "The Secretary of Defense may award contracts for capital assets of the DBOF in advance of the availability of funds in the subaccount, to the extent provided for in appropriations Acts." That legislative provision made contract authority available for the DBOF Capital Investment Program. Contract authority is statutory authority that permits obligations to be incurred in anticipation of receipts to be credited to the DBOF. By definition, contract authority is unfunded and must subsequently be funded through the collection of amounts for goods and services sold to customers before obligations incurred under the contract authority can be liquidated.

e. Dollar value limitations for capital budget obligations are provided on the approved AOB by program year. The AOB limitation by program year is subject to Title 31, United States Code, Section 1341, "Limitations on Expending and Obligating Amounts," and Section 1517, "Prohibited Obligations and Expenditures." Exceeding the limitation contained in the capital budget section of the AOB can result in an Antideficiency Act violation.

5. Reprogramming

a. Budget formulation and congressional reviews require a firm, annual program consisting of specific, justified projects to support the Capital Investment Program. Only those capital asset projects that have been approved by Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) will be included in the President's Budget. However, in the year of execution, actual investment requirements can change relative to previously approved projects and funding levels. Accordingly, appropriate reprioritizing and substitutions are permitted in accordance with provisions of this chapter.

b. Approved capital investment projects and associated dollar amounts will be reflected in the AOB by program year. Substitutions and additions of capital projects must comply with the requirements in paragraph C.1. All capital projects that are cancelled or postponed, as well as added projects, adjustments in estimates to approved projects, and projects selected as substitutions or replacements for cancelled or postponed projects must be identified in capital budget requests forwarded to the OUSD(C).

c. An economic analysis must be completed for all additional, substitute or replacement projects before reprogramming approval is requested. The economic analysis should be prepared in accordance with the requirements in paragraph F. of this chapter for an economic analysis for DBOF capital investments.

d. No project should be continued solely because it was previously approved or because funds are available.

e. The following approval levels and dollar threshold apply to changes to projects approved in the Capital Budget section of the AOB including reprogrammings, substitutions, cancellations and additions:

(1) All adjustments or changes to capital projects that are equal to, or greater than $500,000 shall be approved by the OUSD(C).

(2) All adjustments or changes between categories of capital projects (i.e. minor construction, equipment, ADPE, and software) or business areas that increase a category or a business area by a cumulative amount equal to, or greater than $500,000 within a program year shall be approved by the OUSD(C).

(3) The DoD Components shall develop and issue internal written policies to establish approval levels and dollar thresholds for adjustments or changes to capital projects, or between categories of capital projects approved in the AOB including reprogrammings, substitutions, cancellations and additions.

6. Financing

a. The Capital Investment Program is financed by resources of the DBOF. Funds for this purpose are accumulated in the corpus through the inclusion in customer rates of expected depreciation on purchased capital assets and, if applicable, any additional capital surcharge needed to meet the capital needs of the DBOF.

b. Section 342 of the National Defense Authorization Act For Fiscal Year 1993 requires DoD to establish a capital asset subaccount. Account 1011.1, "Funds Collected - Operating Program - DBOF," and account 1011.2, "Funds Collected - Capital Program - DBOF," are established to separately identify collections applicable to the operating program and capital program to comply with section 342. Additionally, account 1012.1, "Funds Disbursed - Operating Program - DBOF," and account 1012.2, "Funds Disbursed - Capital Program - DBOF," are established to separately identify disbursements applicable to the operating program and capital program.

c. To avoid an Antideficiency Act violation, cash disbursements should not be made in excess of the total cash available to a DBOF activity, business area, DoD Component, or the total cash available to the DBOF.

D. CAPITAL INVESTMENTS

1. Capital Equipment, other than Automated Data Processing Equipment (ADPE) and Telecommunications. The development, manufacture, transfer, and acquisition of all capital assets for the primary use or benefit of DBOF activities shall be classified as capital investments. A capital investment purchase may be established for any purpose approved by the OUSD(C).

2. ADPE and Telecommunications Equipment. As defined in Office of Management and Budget (OMB) Circular A-11, "Preparation and Submission of Budget Estimates," ADPE and telecommunications equipment is equipment or an interconnected system or subsystem of equipment used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information.

3. <u>Software</u>. As defined in OMB Circular A-11, software includes system programs, application programs, commercial-off-the-shelf (COTS) software, independent subroutines, data bases, and software documentation. This category includes software development or acquisition for the general benefit of the DBOF activity but does not include software developed or acquired for a specific customer. Software developed or acquired for a specific customer should be charged to and reimbursed by the requesting customer.

4. <u>Minor Construction</u>. A minor construction project includes all work and costs necessary to construct or improve a complete and usable building, structure, or other real property. Minor construction projects which meet or exceed the DoD capitalization criteria but do not exceed the amount specified by 10 U.S.C. 2805 for funding such projects in the Military Construction appropriation shall be financed as a capital purchase.

5. <u>Exclusions From the Capital Investment Program</u>. The following are mandatory exclusions from the Capital Investment Program and must be financed directly from appropriated funds:

a. Major range and test facility items (equipment and minor construction) that meet the DoD investment capitalization criteria for use by Major Range and Test Facility Bases operating within the DBOF.

b. Military and tenant support functions.

c. Aircraft, ships, barges, and general-purpose passenger-type vehicles.

d. Equipment and minor construction projects purchased to meet mobilization requirements, but not used during peacetime operations.

e. Equipment initially procured and usually furnished as part of a weapon system and/or support system to include initial common support equipment for depot maintenance in support of new weapon systems.

f. Equipment normally funded by appropriated funds and provided to contractors as Government-furnished equipment to be incorporated into, used in conjunction with, or consumed in the production of, an end product. (Such equipment should be funded by appropriated funds and provided to the applicable DBOF activity at no cost to the DBOF activity.).

g. Minor construction projects—for a non-DBOF activity or a military support function.

h. Construction and facility investment projects that exceeds the amount specified by 10 U.S.C. 2805 for funding such projects in the Military Construction appropriation.

i. Environmental projects financed or submitted for funding by the Defense Environmental Restoration Account.

j. Capital investments for morale, welfare, and recreation.

k. Such other exclusions as may be approved by the OUSD(C).

6. Capitalization Criteria

a. DoD Components shall capitalize and report in financial records all assets developed, manufactured, transferred, or acquired by the DBOF including computer software purchased or developed, when the following criteria are met:

(1) Acquisition cost, book value, or, when applicable, the estimated fair market value equals, or exceeds, the expense/investment funding threshold used by the Congress for appropriating DoD operating (expense) and Procurement (investment) appropriations. Transfers of capital assets shall comply with paragraph E.5.c.; and

(2) Estimated benefit period or useful life to the Department of Defense of 2 years or more.

b. Acquisition cost is the original purchase or development cost including transportation, design, installation, and other related costs necessary to put the asset in the place and form in which it shall be used.

c. Software acquisition or development cost incurred by DBOF activities (or, in absence of known amounts, a reasonable estimate thereof) for projects ordered or requested in prior years and delivered, installed, and operational after October 1, 1991 shall be capitalized by the DBOF activity if they otherwise meet the requirements of paragraph D.6.a. above.

(1) The acquisition cost criteria, in the case of computer and other systems, is applied on the basis of the cost of a complete system rather than on a unit cost of individual items of equipment which, when aggregated, become a system. Incremental deliveries of these projects shall be capitalized if the aggregate cost meets the criteria above.

(2) Computer software that is integrated into hardware, and is necessary to operate the hardware rather than to perform an application, is capitalized as hardware.

d. When the expense/investment funding threshold changes, a capital asset capitalized within the DBOF at a previous threshold will continue to be capitalized and depreciated at the threshold at which it was originally capitalized.

7. Depreciation Criteria

a. Depreciation shall be calculated and accumulated using the straight-line method based on the capitalized amount less residual value when residual value is expected to be 10 percent or more of the acquisition cost. That is, the capitalized amount less estimated residual value shall be divided equally among accounting periods during the asset's useful life.

b. Depreciation shall commence in the month following (a) the date of receipt shown on the asset receiving document or (b) the date the asset is installed and ready for use (regardless of whether it is actually used). Depreciation shall be recorded in equal amounts each month thereafter until

the asset is fully depreciated, disposed of, or otherwise transferred. If an asset remains in use longer than its estimated useful life, it shall be retained on the accounting record, at its residual value (which can be $-0-) until its final disposition.

c. Depreciation of equipment acquired with a procurement appropriation for a mobilization requirement and facilities acquired with a military construction appropriation will be reflected on the DBOF financial statements but will not be recovered in rates. Addendum 1 to this chapter illustrates the accounting for such assets. Chapter 70 contains the fund financial reporting formats and instructions.

d. Equipment and minor construction projects purchased primarily to meet mobilization requirements will not be depreciated.

e. Any other exclusion from funded depreciation requires prior approval by the OUSD(C).

f. The following depreciation schedule established for Defense Business Operation activities shall be used:

Facilities construction projects (including minor construction)	20 Years
Equipment, other than ADPE	10 Years
ADPE and Telecommunications Equipment	5 Years
Software	5 Years

g. Methodology and Alternative Depreciation Schedules

1. DBOF activities may request an alternative methodology for computing depreciation expenses, and/or an alternative estimate of useful life. Requests for an alternative methodology for computing depreciation expenses or depreciation schedules should be submitted for a determination of approval, through the appropriate DoD Component channels, to the OUSD(C), Directorate for Accounting Policy.

2. Requests for an alternative methodology for computing depreciation expenses or depreciation schedules should identify, but should not necessarily be limited to: (1) type and function of the capital asset (2) alternative methodology for computing depreciation expenses or depreciation method proposed to be used; (3) commercial benchmark used to determine applicability or estimated useful life of the asset; and (4) rationale for the alternative. The OUSD(C), Directorate for Accounting Policy, will notify the DoD Component when a determination is made.

E. ACCOUNTING FOR CAPITAL ASSETS

1. Capital assets used by a DBOF activity in providing goods or services must be recognized in the property and financial records of that DBOF activity. Capital assets include, but are not limited to; physical plant and property, (including government owned facilities, property acquired under a capital lease, leasehold improvements to property acquired under a capital lease or an operating lease), equipment and software. Financial records for assets capitalized in a DBOF activity must:

a. Be supported by formal depreciation schedules,

b. Have all depreciation expenses recorded,

c. Include depreciation expenses in rates charged, except for depreciation of facilities acquired through military construction appropriations or other exclusions approved in accordance with paragraph D.7.e. above.

2. The following three criteria must be met for an item to qualify as an asset and be reported as such in a DBOF entity's financial statements:

a. The asset must embody a probable future benefit that will contribute to the entity's operations. In applying this criteria, the concept of benefit has traditionally been referred to as "service capacity" which is the ability of an item to directly assist an entity in achieving its mission. Service capacity has value because it is consumable or exchangeable for other benefits. Real property assets (e.g., buildings) financed by a military construction appropriation provide a service capacity to the DBOF in that they house DBOF operations thus allowing the DBOF activity to achieve its mission. Also, DBOF is responsible for assuring that the maximum benefit is always available since it pays for utilities, maintenance, and upkeep. The exchangeability part of the benefit criteria (the ability to sell, trade, or donate property) need not be present for an item to qualify as an asset in the federal sector if consumption of the item provides benefit to the entity.

b. The entity that reports the asset must be able to obtain the benefit and control access to the benefit inherent in the asset. The second criteria of an asset, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing of when the benefit is derived, and under what conditions it is derived. Directing the use of the benefit has traditionally been based on (1) possession or (2) the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances in which a DBOF activity maintains possession of property through agreements which provide for DBOF's possession for as long as needed, without a termination date and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criteria. Once termination occurs, however, as in the case of a base closing where DBOF conducts operations, control no longer exists; hence, the property will no longer meet the control criteria of an asset.

c. The transaction or event giving the entity a right to and control over the benefit must have already occurred. The third criteria, is an agreement (express or implied) that allows DBOF to occupy and/or use property without reimbursement for as long as needed.

3. DBOF activities that meet the criteria in paragraph E.2. above shall record the capital asset in their property and financial records; record depreciation on the capital asset; and record improvements to the capital asset.

4. Facilities Used by DBOF Activities

a. DBOF activities that are sole occupants/tenants of a government owned facility or hold a capital lease (as opposed to an operating lease) on an entire building and sublet portions of that building and meet the criteria in paragraph E.2. above shall record the capital asset in their property and financial records.

b. DBOF activities which are joint occupants/tenants of a Government owned facility and meet the criteria in paragraph E.2. above shall determine which occupant/tenant will record the capital asset in their property and financial records by applying the following criteria in descending order of application:

(1) Occupant/tenant that can substantiate preponderant use (via direct labor hours, actual hours, population, square footage, metered output, etc.) of an asset in the production of goods or services for their customers.

(2) Occupant/tenant that have exclusive responsibility for the maintenance, repair, upkeep, and replacement (Military Construction) of the asset.

5. Assets Held by DBOF Activities for Mobilization Requirements. DBOF activities shall assume ownership of assets acquired through use of a procurement appropriation that are held to meet a mobilization surge capability.

6. Sources of Capital Assets. Subject to availability of sufficient resources and compliance with other DoD/Federal requirements, capital assets may be developed, manufactured, transferred, or otherwise procured for use by DBOF activities upon identification in, and approval of, the capital budget section of an activity's AOB. Regardless of the ultimate use of the asset, costs incurred in the development, manufacture, or acquisition of the asset must be identified, captured, and recorded as execution against a specific Capital Budget project.

a. Acquisition of Capital Assets for Business Area Use. The total cost incurred by a DBOF activity to develop, manufacture or acquire a capital asset consists of, but is not limited to; direct and indirect labor and non-labor, contractual cost net of authorized discounts paid; reimbursable support cost, applicable overhead, and general and administrative costs incurred when appropriate; plus any associated costs for transportation, installation, and other related costs necessary to put the asset in the place and in the form in which it shall be used. Software development (programs,

routines, and subroutines) cost also shall include the computer operating costs for testing, developing, and parallel processing.

b. Capital Assets Centrally Acquired

(1) Business areas, such as the Joint Logistics Systems Center, may from time to time be designated as a central agent to procure capital assets for customers within the DBOF. The procuring business area shall issue contracts to commercial sources or funded orders to other DBOF activities and DoD Components as necessary, to satisfy the requirement.

(2) Capital assets may be sold or transferred to customers of the central agent at negotiated selling or transfer prices. Negotiated selling or transfer prices shall include the total cost of the capital asset which consists of contractual cost net of discounts taken, reimbursable support cost, applicable overhead, general and administrative costs incurred in the acquisition of the asset plus any approved surcharges.

(3) A capital asset acquired by a central agent and distributed and installed in one or more business areas shall be capitalized in the financial records of each business area and depreciated.

(4) When the share of the cost of a capital asset distributed and installed at a business area fails to meet the investment capitalization criteria, it nevertheless shall be capitalized and depreciated if the aggregate initial cost of the asset distributed to all business areas, satisfies the investment threshold.

(5) Capital assets acquired by a central agent may be delivered directly from a vendor/contractor to the receiving business area. Central agents shall record all deliveries and receipt of capital assets in their financial records until such time as an order is completed and sold or transferred to a customer. The ultimate cost of the completed asset shall include all incremental deliveries and all additional costs incurred by either, or both, the central agent and the receiving customer in the acquisition and installation of the asset.

c. Transfer of Capital Assets

(1) Capital assets that are transferred to a DBOF activity and have preexisting depreciation schedules and accumulated depreciation shall be capitalized to the fund at their book value plus any associated costs for transportation, installation, and other related costs necessary to put the asset in the place and in the form in which it shall be used.

(2) Capital assets that are transferred to a DBOF activity and have no preexisting depreciation schedules and accumulated depreciation shall be capitalized to the fund at their original acquisition cost, or reasonable estimate thereof when acquisition cost cannot be reasonably determined, plus any associated costs for transportation, installation, and other related costs necessary to put the asset in the place and in the form in which it shall be used. The DBOF activity shall then record accumulated depreciation in an amount equal to the amount that would have been recorded if the asset had been depreciated based on its (the DBOF activity's) normal depreciation

policy. The net value (original acquisition cost less accumulated depreciation) shall be recorded as an equity increase. For example, assume an asset that was originally acquired by the transferor three years past for $50,000 is transferred to a DBOF activity. The asset is one that has a five year useful life. The following accounting entry should be made to record the asset on the records of a DBOF activity:

Dr 1750 Equipment	$50,000	
Cr 1759 Accumulated Depreciation on Equipment		$30,000
Cr 3220 Transfers In from Others Without Reimbursement		$20,000

Entry to record transfer in of an asset without reimbursement from another DoD entity.

Depreciation after the transfer shall be calculated based on the net asset amount recorded. The DBOF will then begin recording depreciation expenses on these assets and reporting them in the financial records.

(3) Capital assets that (1) are donated to a DBOF activity by organizations outside the DoD and (2) meet the capitalization criteria shall be capitalized to the DBOF at estimated fair market value plus any associated costs for transportation, installation, and other related costs necessary to put the asset in the place and in the form in which it shall be used. Depreciation of the donated asset shall be calculated based on the asset amount recorded. The DBOF will then begin recording depreciation expenses on these assets and reporting them in the financial records.

(4) Capital assets that are transferred out of a DBOF activity to another DoD activity, Government Agency or others shall be transferred at the recorded acquisition cost less accumulated depreciation as of the date of transfer. The accounting entries for these transfers are prescribed in paragraph E.6.b. below. Disposal of a capital asset--whether at a gain or a loss--shall be in accordance with Chapter 62 of this Volume and Part of the DoD Financial Management Regulation.

d. Capital Assets Acquired for Customers

(1) Statutory limitations and restrictions imposed on appropriated or other funds of the DBOF's customer(s) are not changed by the placement of an order with the DBOF. A DBOF customer cannot use its appropriated funds to do indirectly, i.e., through placement of an order with a DBOF activity, what it is not permitted to do directly. Thus, the availability of an appropriation cannot be expanded or otherwise changed by placing a customer order with, or otherwise transferring amounts to the DBOF. Appropriated funds cited on reimbursable orders are available only for the purposes permissible under the source appropriation and remain subject to the same restrictions. The ordering activity is primarily responsible for the determination of the applicability of the ordering appropriation. However, if instances arise where the ordering appropriation is not appropriate for the purpose provided, then the order should be returned with a request for an appropriate appropriation cite.

(2) Capital assets which are acquired specifically for a particular customer order and do not have a recurring use for other workload or customer orders shall be charged to the customer order, provided the appropriation or fund cited in the order is appropriate for that purpose. Such assets shall be the property of the customer and, as such, are not subject to depreciation expense recovery by a DBOF activity.

(3) The total cost incurred by a DBOF activity in developing, manufacturing or acquiring capital assets for a customer shall be accumulated in the work-in-process account. Customers shall be billed the negotiated sales price. The selling price shall include the total cost of the capital asset which consists of contractual cost net of authorized discounts taken, reimbursable support cost, applicable overhead, general and administrative costs when appropriate, any associated costs for installation, modification, testing, transportation, and other related costs in developing or acquiring the asset, plus any approved surcharges.

7. Improvements and Upgrades of Existing Capital Assets

a. Improvements and upgrades that increase the capacity or operating efficiency of an existing capital asset, and for which the cost is equal to or greater than the expense/investment funding threshold used by the Congress for appropriating DoD operating (expense) and Procurement (investment) appropriations, should be capitalized even though the improvement or upgrade may not extend the useful life of the asset. The depreciation schedule of existing capital assets shall be revised to include the acquisition cost of a capitalized improvement or upgrade. Below are criteria for use in determining whether the useful life of the original asset should be revised. In either situation, revision of depreciation expense and/or useful life is measured prospectively and accounted for in the current and future periods. No adjustment shall be made to prior depreciation.

(1) If the cost of the improvement or upgrade is greater than 50 percent of the net book value (original acquisition cost less accumulated depreciation) of the existing asset, then the improvement or upgrade is analogous to the purchase or manufacture of a new asset. Accordingly, investment amounts will be added to the current net book value of the existing asset and a new depreciation value computed which will depreciate the new value over the useful life of the asset determined from the month that the improvement or upgrade became operational.

(2) If the cost of the improvement or upgrade is less than 50 percent of the net book value (original acquisition cost less accumulated depreciation) of the existing asset, then the cost of the improvement or upgrade is depreciated over the remaining useful life of the existing asset.

b. Improvements and upgrades costing less than expense/investment funding threshold used by the Congress for appropriating DoD operating and Procurement appropriations are recorded as an expense even though the improvement or upgrade could extend the useful life of the asset.

8. Capital Asset Accounting Pro Forma Illustrations

a. An illustration of selected accounting entries to be recorded in a DBOF's financial records is as follows:

(1) Record Capital Budget at Component Level

Dr 4550 Internal Fund Distributions Received
Cr 4567 Unallotted Capital Authority-DBOF

Entry to record at the Component/Agency level the capital budget received from the DoD Level.

(2) Issue Capital Budget to Installation Level

Dr 4567 Unallotted Capital Authority-DBOF
Cr 4577 Capital Authority Issued-DBOF

Entry to record the capital budget issued to the installation level from the Component/Agency level.

(3) Record Capital Budget at Installation Level

Dr 4585 Capital Program-DBOF
Cr 4615 Capital Authority Available-DBOF

Entry to record the capital budget at the installation level received from the DoD Component.

(4) Order Placed for Capital Equipment

Dr 4615 Capital Authority Available-DBOF
Cr 4825 Undelivered Orders-Capital-DBOF

Entry to record an obligation for the purchase of capital equipment.

(5) Capital Asset Received

Dr 4825 Undelivered Orders-Capital-DBOF
Cr 4922 Accrued Expenditures-Unpaid-Capital-DBOF

Dr 1750 Equipment
Cr 2110 Accounts Payable

Entry to record the receipt and recognize the accounts payable for a capital asset.

(6) <u>Payment for Capital Asset</u>

Dr 4922 Accrued Expenditures-Unpaid-
Capital-DBOF
Cr 4944 Accrued Expenditures-Paid-
Capital-DBOF

Dr 2110 Accounts Payable
Cr 1012.2 Funds Disbursed-Capital
Program-DBOF

Entry to record the payment for the purchase of a capital asset.

b. A DBOF activity transfers out a capital asset to another <u>Government Agency</u> for which depreciation has previously been recorded.

(1) <u>Transfer-Out of Capital Asset with Recorded Depreciation</u> to another Government Agency

Dr 3231 Transfers-Out to Government Agencies
Without Reimbursement
Dr 1759 Accumulated Depreciation on Equipment
Cr 1750 Equipment

Entry to record the transfer-out of a capital asset to another Government Agency where depreciation has previously been recorded.

(2) Transfer-Out of Capital Asset with Recorded Depreciation to Others

Dr 3232 Transfers-Out to All Others
Without Reimbursement
Dr 1759 Accumulated Depreciation on Equipment
Cr 1750 Equipment

Entry to record the transfer-out of a capital asset to others where depreciation has previously been recorded.

c. A transfer-in to a DBOF activity of a capital asset for which depreciation has previously been recorded.

<u>Receipt of Capital Asset Transferred-In with Recorded Depreciation</u>

Dr 1750 Equipment
Cr 1759 Accumulated Depreciation on Equipment
Cr 3220 Transfers-In from Others Without
Reimbursement

Entry to record the transfer-in of a capital asset from another DoD activity where depreciation has previously been recorded.

8. General ledger account definitions are provided in Volume 1 of the "DoD Financial Management Regulation."

F. COST AND ECONOMIC ANALYSIS OF DBOF CAPITAL INVESTMENT PROGRAM PROJECTS

1. Purpose. The purpose of this policy is to:

a. Clarify techniques and procedures for analysis and documentation of capital projects with investment costs less than $100,000 as well as those of $100,000 or more. Capital projects are those that are expected to meet the capitalization criteria specified in paragraph D.6. of this chapter.

b. Outline the process for capital project economic analysis and cost comparison justifications in support of the Planning, Programming, Budgeting, and Execution System.

2. Related Materials

a. OMB Circular A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs," October 1992.

b. DoDI 7041.3, "Economic Analysis and Program Evaluation for Resource Management," October 1972.

c. DoD 7000.14-R, "Department of Defense Financial Management Regulation," Volume 2B, Chapter 9, May 1994.

d. OUSD(C) Inflation Indices issued annually to DoD Components for use in preparation of PPBES submissions and cost estimates.

3. Analytical Justification - General Policy

a. Capital Investment Program projects within the DBOF are essential in maintaining efficient and effective business operations. It is imperative that expenditure of funds for these projects be justified based on sound analytical evaluation to ensure competitive operations reflected in a structure supporting the lowest price to the customer.

b. Funding requests for projects in the four Capital Investment Program categories identified in paragraph D. of this chapter shall be justified and supported by a formal, pre-investment analysis. Either an economic analysis or cost comparison as discussed in this document is required to justify investment projects for Capital Budget submissions, reprogramming requests, or substitution of projects. The scope of analysis shall be tailored depending on dollar value of the project as outlined in paragraphs F.5. and F.6. below. These analyses shall be maintained by the originating office of the DoD Component as project documentation support for the Capital Budget submission as well as program execution. The Capital Investment Program categories are:

(1) Capital Equipment (Other than ADPE & Telecommunications)

(2) ADPE and Telecommunications Equipment

(3) Software

(4) Minor Construction (less than $300,000)

c. Capital Investment Program projects in the four investment categories above shall also be identified according to one of the following primary reasons for justifying the investment:

(1) Replacement. Unsafe, beyond economical repair, or inoperative/unusable assets.

(2) Productivity. Improved efficiency (savings) or effectiveness.

(3) New Mission. Required new capability or capacity that cannot be met with current equipment or facilities.

(4) Environmental. Investment for environmental or hazardous waste reduction including regulatory agency mandated requirements.

4. Analytical Justification - General Policy Exemptions. There are two instances for which an exemption applies to the requirement to perform a pre-investment analysis. In both instances, an exception justification statement shall be prepared documenting the requirement or authority for the exemption claimed. Exemption statements shall be validated as would a pre-investment analysis and approved through DoD Component review channels. The two instances are:

a. Environmental, hazardous waste reduction, or regulatory agency (state, local, or Federal) mandated requirements; also includes directed action by higher DoD or Component authority which precludes choice among alternatives.

b. DoD instruction or directive waive the requirement (e.g., equipment age or condition replacement criteria).

5. Analytical Justification - Investment Projects under $100,000

a. Investment projects estimated to cost under $100,000 shall be justified using an abbreviated approach which compares the costs of feasible alternatives to the status quo. The cost comparison initially shall be prepared in constant base year dollars and shall present a differential cost display by year for up to a six year evaluation period beginning with the budget year for which investment funds are requested.

b. Documentation for a cost comparison shall describe the functional process performed; define the need/requirement/objective; identify workload projections; address feasible alternatives; present total costs attributed to each alternative and the differential costs/monetary benefits expected in constant and current dollars over the six year evaluation period; provide significant assumptions, constraints, estimating methods, rationale and data sources.

c. The following economic indicators (defined in paragraph F.7. below) shall be developed and summarized in the Cost Comparison: Payback and Benefit to Investment Ratio (BIR). These values shall be used in conjunction with the above documentation elements in determining the recommended project alternative when there is more than one under evaluation. Payback shall be the primary indicator from cost comparisons to rank order projects up to $100,000 within the investment categories of each business area.

d. Addendum 2 presents a recommended outline and format for the cost comparison reflecting the above documentation elements. Complete documentation for a cost comparison may be 3-5 pages although this may vary depending on the number of alternatives considered and complexity of the project.

6. Analytical Justification - Investment Projects $100,000 or More

a. Investment projects estimated to cost $100,000 or more shall be justified using conventional, analytical techniques pertaining to economic analysis for evaluation of alternatives relative to the current situation or status quo. The economic analysis shall be prepared on a net present value (NPV) basis and shall comply with applicable DoD or Component guidance as well as functional program guidance. The economic analysis initially shall be prepared in constant base year dollars and shall present a differential cost display by year over the project's expected economic life beginning with the budget year for which investment funds are requested. The expected economic life used in estimating the costs and benefits of an alternative shown on the Economic Analysis Format shall be the same as the depreciation period for that asset as shown in paragraph D.7.f. above.

b. Documentation shall describe the functional process performed; define the need/requirement/objective; present and explain workload projections; identify feasible alternatives; present total costs and the differential costs/monetary benefits in constant, discounted, and current dollars over the expected economic life of the project; highlight NPV of the alternatives; present estimating methods/relationships, and data sources; identify significant constraints, assumptions and variables; treat sensitivity and uncertainty of key parameters; and address all other quantifiable benefits as well as any intangible benefits influencing the recommended course of action. Quantifiable benefits are all outputs/results achieved in return for investment dollars associated with an alternative. Numerical values such as dollars saved or physical/performance attributes are measures of quantifiable benefits. Intangible benefits are qualitative in nature such as improved morale or quality of life considerations.

c. The standard criterion used in evaluating investment alternatives based on economic principles is NPV which is the difference between the discounted present value of monetary benefits and the discounted present value of investment costs. In addition to NPV, economic indicators for "Payback" and "Benefit to Investment Ratio (BIR)," (defined in paragraph F.7. below) shall be developed and summarized in the economic analysis. These values shall be used in conjunction with the above documentation elements in determining the recommended project alternative when there is more than one under evaluation. NPV and BIR shall be the primary financial

measures from economic analyses used to rank order projects of $100,000 or more within the investment categories of each business area.

d. Addendum 3 contains a recommended outline and format for the economic analysis reflecting the above documentation elements. Automated economic programs and reports may be used if the programs provide reports comparable to the requirements of Addendum 3.

e. With regard to automated information systems investments and functional program evaluations within the DoD, the pre-investment analysis process shall comply with the requirements identified below. Care shall be exercised in consideration of the type and program responsibility for the respective economic analyses to assure efficient preparation and submission to the appropriate business area and Capital Investment Program category.

(1) Major Automated Information System Review Council (MAISRC) Systems. MAISRC Systems shall comply with economic analysis preparation, display, milestone, and dollar threshold requirements for automated information systems governed by DoDD 8120.1, "Life-Cycle Management of Automated Information Systems," DoDI 8120.2, "Automated Information Systems Life-Cycle Management Process, Review, and Milestone Approval Procedures," DoDI 7920.4, "Baselining of Automated Information Systems," and DoD 7920.2-M, "Automated Information system Life-Cycle Management Manual."

(2) Functional Economic Analyses. Functional Economic Analyses (FEAs) shall comply with DoD economic analysis requirements in support of functional program business cases governed by DoD Series 8000 Instructions and authorities referenced in paragraph F.2. of this chapter.

f. All automated information systems investments shall be supported by an economic analysis for each phase of the acquisition review and approval process prescribed by DoD and Component regulatory authority.

7. Economic Indicators

a. The economic indicators as defined and discussed below shall be used in both cost comparisons and economic analyses for Capital Investment Program projects.

(1) Payback. Used to compare the period of time, in years, necessary for an alternative to repay its investment cost from monetary benefits expected; also used as a value to compare and rank order competing projects; computed using current dollars. Calculated and presented as whole and fractional part of a year (i.e., 2.73 years).

(2) Benefit to Investment Ratio (BIR). Used to compare project alternatives in terms of all expected monetary benefits inclusive of whole and partial manpower productivity savings resulting from increased efficiency and other cost avoidances achieved over the total project life under evaluation; also used as a value to compare other projects. Calculated, using discounted constant dollars, as an index value and rounded to the second decimal place (e.g., 3.74). The value must be greater than one to be cost beneficial; the larger the ratio the greater the advantage.

b. The computation of BIR shall be limited for Capital Investment Program projects to a six year evaluation period for cost comparisons and a project's expected economic life for economic analyses. If the expected economic life of a proposed capital asset/alternative is less than the six year period for a cost comparison, the evaluation period shall be shortened to match. Additionally, the cost comparison BIR shall be computed using constant dollars only since discounting does not apply to the cost comparison analysis.

c. Some projects may not generate sufficient expected monetary benefits to payback within the specified evaluation period for cost comparisons. In these instances, annual benefits shall be extrapolated beyond the evaluation period for purposes of determining the Payback.

d. Automated information systems economic analyses, in accordance with paragraph F.6.e. above, also include a "Savings to Investment Ratio (SIR)" economic indicator. Savings to Investment Ratio (SIR) is used to compare project alternatives in terms of hard savings expected (i.e., funds no longer required in the budget and program out years) relative to the investment cost of each alternative over the total project life under evaluation; also used as a value to compare other projects; computed using discounted constant dollars.

8. <u>Operations Versus Investment Cost Elements for Analysis of DBOF Capital Investment Program Projects</u>. The following elements are illustrative of those considered in estimating the costs associated with a Capital Investment Program project for either a cost comparison or economic analysis. These cost elements may be augmented as needed. Operations cost elements apply to the status quo and all feasible alternatives while investment cost elements apply only to the alternatives. Operations costs should be estimated on a total cost basis including all direct and indirect labor, applicable overhead, and general and administrative costs. Operations costs may include non-recurring (one time) as well as recurring costs.

<u>OPERATIONS COSTS</u>

Labor
- Civilian Personnel
- Military Personnel

Material
Maintenance and Repair
Consumable Supplies
Lease/Rent
Utilities
Other

<u>INVESTMENT COSTS</u>

Acquisition
Transportation *
Installation *
Testing *
Training *
Other

* May be applicable if not included in acquisition cost.

9. Budget Formulation and Execution

a. Capital Investment Program project justifications shall be used in support of program planning as well the budget formulation process. Initial supporting, pre-investment analyses shall be completed approximately eighteen months prior to the year of execution and then reassessed approximately six months before year of execution. In addition to budget formulation, either an economic analysis or cost comparison shall be used to support a project substitution or to accomplish a reprogramming request.

b. DoD Component business areas are encouraged to rank order all projects within Capital Investment Program category (as shown in paragraph F.3.b. above) based on NPV and the economic indicators discussed above as well as other essential criteria (e.g., exemptions) deemed appropriate by Component activities. The prioritization process shall facilitate timely substitution of worthy projects for those no longer justified and subsequently drop out. The priority sequencing process shall result in a listing that is periodically updated as Component or business area priorities change.

c. Capital Investment Program projects shall be submitted in accordance with Volume 2B, Chapter 9 of this Regulation.

(1) Investment projects of $500,000 or more shall be supported by a summary of the results of the economic analysis including an explanatory narrative of the need/requirement, workload projections, feasible alternatives, significant assumptions, estimating methods, data sources, NPV, Payback, BIR, dollar benefits expected, and other support of the recommended project. An appropriate exemption justification statement shall be included as applicable in lieu of economic analysis summary results.

(2) Investment projects of $1.0 million or more shall have a copy of their supporting economic analysis submitted to the DoD Component for review and retention.

10. Post-Investment Analyses. Annually, each activity within the DBOF shall prepare post-investment analyses for ten percent of the number of capital investment projects, but not less than five projects, that were completed during the previous fiscal year and had been justified wholly or partially on the basis of economic considerations (e.g., productivity improvements). The projects selected for post-investment analysis shall be a representative sample of the completed investment projects. The format and technique for each post-investment analysis shall be similar to the cost comparison or economic analysis used for the project justification. The post-investment analyses shall be retained for ready review for five years.

ACCOUNTING ILLUSTRATION

INVESTED CAPITAL USED

A. GENERAL

1. Revenue and expenses associated with reimbursable orders must be matched and reported on the Statement of Operations. Likewise, the use of assets, as measured by depreciation of those assets, which are not included in reimbursement rates is a financing source against which expenses must be matched and reported on the Statement of Operations. To accomplish this requirement, general ledger account 5790 has been established.

2. Assets used by the Defense Business Operations Fund (DBOF) may be made available in one of two ways:

a. Assets may be purchased by use of DBOF (97X4930) resources. Assets purchased through use of DBOF resources are accounted for as an exchange of assets (DBOF cash for the acquired asset) as demonstrated by the following accounting entry:

Dr 1730 Buildings	$ 60,000	
Dr 1740 Other Structures and Facilities	$ 48,000	
Cr 1012.2 Funds Disbursed - Capital Program - DBOF		$108,000

b. Assets may be acquired through resources other than those made available to the DBOF for its use. Assets of this type (generally buildings, structures, and facilities financed by a Military Construction appropriation and assets financed by a Procurement appropriation for mobiization requirements) are accounted for as an increase to the applicable asset account and a corresponding increase in equity as demonstrated by the following accounting entry (and more fully explained in this Addendum):

Dr 1730 Buildings	$240,000	
Dr 1740 Other Structures and Facilities	$120,000	
Cr 3211.2 Assets Capitalized		$360,000

Account 5790, "Invested Capital Used," a credit balance account, is a general ledger account established to match, as a financing source, the current period depreciation of assets acquired through resources other than those made available to the DBOF (97X4930) for its use.

B. ILLUSTRATION. The following simplified illustration provides an explanation, in accounting terms, of the accounting necessary to properly recognize revenue and associated expense applicable to invested capital.

1. Identification of Expense to Financing Source. Assets used by the DBOF may be financed through use of DBOF resources (97X4930) or they may be financed by other sources and donated or otherwise made available to the DBOF for its use. The assets acquired must be identified to their original financing source so that the depreciation of those assets can be properly identified.

Financing Source	Account 1730 Buildings	Account 1739 Monthly Depreciation	Account 1740 Other Structures and Facilities	Account 1749 Monthly Depreciation
97X4930	$ 60,000	$ 250	$ 48,000	$ 200
Donation/Other	$240,000	$1,000	$120,000	$ 500
Total	$300,000	$1,250	$168,000	$ 700

2. Recognition of Accrued Expenses

Dr 6126 Depreciation of Real Property	$1,500	
Cr 1739 Accumulated Depreciation on Buildings		$1,000
Cr 1749 Accumulated Depreciation on Other Structures and Facilities		$ 500

To record monthly real property depreciation on donated/Military Construction financed assets. (As shown in preceding table, $1,500 [$1,000 + $500] of the depreciation is applicable to assets used by the DBOF but financed by resources other than those available to the DBOF.)

Dr 6126 Depreciation of Real Property	$ 450	
Cr 1739 Accumulated Depreciation on Buildings		$ 250
Cr 1749 Accumulated Depreciation on Other Structures and Facilities		$ 200

To record monthly real property depreciationon on assets acquired with DBOF financial resources.

3. Reduction of Invested Capital (Account 3211.2). The amounts to be recorded in account 5790 shall be equal to the amount of depreciation/depletion/amortization expenses recorded in the 6100 series of accounts that are applicable to assets used by the DBOF but financed by resources other than those available to the DBOF. In this illustration, those expenses total $1,500.

The following entry illustrates the use of this account:

Dr 3211.2 Assets Capitalized	$1,500	
Cr 5790 Invested Capital Used		$1,500

To record, as a financing source, the monthly benefit received from the use of non-DBOF assets. The benefit received shall be equal to the depreciation expense recorded for those assets during the same period.

4. <u>CLOSING OF ACCOUNTS AT FISCAL YEAR END</u>

Dr 3321 Net Results of Operations - DBOF	$ 23,400	
Cr 6126 Depreciation of Real Property		$ 23,400
Dr 5790 Invested Capital Used	$ 18,000	
Cr 3321 Net Results of Operations-DBOF		$ 18,000
Dr 1012.2 Funds Disbursed - Capital Program - DBOF	$108,000	
Cr 3211.4 Net Treasury Balance-DBOF		$108,000

5. <u>NOTES</u>:

a. Account 5790, "Invested Capital Used," should equal the amount of depreciation expenses recorded for assets used by the DBOF but financed by resources other than those available to the DBOF.

b. The balance in account 5790 should be reported within the "Revenues and Financing Sources" section of the Statement of Operations on the line for "Other Revenue and Financing Sources."

c. The accrued depreciation expense should be reported within the "Expenses" section of the Statement of Operations on the line for "Depreciation and Amortization."

d. The Journal Voucher used to generate the third entry in paragraph B.4. above to close general ledger account 1012.2, "Funds Disbursed - Capital Program - DBOF" to general ledger account 3211.4 shall be retained indefinitely. A copy of the Journal Voucher shall be forwarded to the Defense Finance and Accounting Service-Cleveland Center. Upon receipt of the Journal Voucher from a DBOF activity, the Defense Finance and Accounting Service-Cleveland Center shall make the following accounting entry:

Dr 3211.4 Net Treasury Balance-DBOF	$108,000	
Cr 1013.2 Funds with Treasury - Capital Program - DBOF		$108,000

DEFENSE BUSINESS OPERATIONS FUND

CAPITAL INVESTMENT PROGRAM

PROJECT JUSTIFICATION AND ANALYSIS
(For Capital Investment Projects less than $100,000)

1. Project Title:

2. Functional Process/Project Description:

3. Need/Requirement/Objective Statement:

4. Workload Projections:

5. Alternative(s):

   - Status Quo
   - Feasible Alternatives
     - Alternative A
     - Alternative B (if applicable)

6. Cost and Benefits Display (see following page)

7. Summary Information for All Alternatives: (Numbers in parentheses are keyed to the Cost Comparison Format on the following page)

	Alt. A	Alt. B
Total Benefits (Current Dollars) (6)		
Investment Cost (Current Dollars (7)		
Payback (Yrs))		
BIR (8)/(9)		
Productivity Benefits: (Workyears)		

8. Source and Derivation of Costs: (Provide complete explanation, rationale, and backup to support the project and ensure validation.)

9. Assumptions and Constraints: (Identify significant assumptions and constraints.)

10. Conclusions and Recommendation:

COST COMPARISON FORMAT

Constant Dollars (Base Year FY96)				Current Dollars (Inflated)
	Operations Costs			
Evaluation Period* (1)	Status Quo (2)	Alternative A (3)	Benefits (Differential Costs) (4) = (2) - (3)	Benefits (Differential Costs) (5) = (4) x Infl. Fac.
FY96				
FY97				
FY98				
FY99				
FY00				
FY01				
Residual Value				
Total	$ XXX	$ XXX	$ XXX (8)	$ XXX (6)
		Investment Cost $ XXX (9)		Investment Cost $ XXX (7)
		Project Total $ XXX		

*Limited to 6 years

Repeat Cost Comparison Format for each alternative.

DEFENSE BUSINESS OPERATIONS FUND

CAPITAL INVESTMENT PROGRAM

PROJECT JUSTIFICATION AND ANALYSIS
(For Capital Investment Projects of $100,000 or more)

1. Project Title:

2. Functional Process/Project Description:

3. Need/Requirement/Objective Statement:

4. Workload Projections:

5. Alternative(s):

- Status Quo
- Feasible Alternatives
  - Alternative A
  - Alternative B (if applicable)

6. Cost and Benefits Display (see following page)

7. Summary Information for All Alternatives: (Numbers in parentheses are keyed to the Cost Comparison Format on the following page)

	Alt. A	Alt. B
Total Benefits (Current Dollars) (7)		
Investment Cost (Current Dollars (8)		
Payback (Yrs))		
BIR (11)/(12)		
Productivity Benefits: (Workyears)		

8. Source and Derivation of Costs: (Provide complete explanation, rationale, and backup to support the project and ensure validation.)

9. Assumptions and Constraints: (Identify significant assumptions and constraints.)

10. Sensitivity/Uncertainty: (Analyze the implications of potential changes to key parameters on the costs and monetary benefits for each alternative.)

11. Other Quantifiable Benefits (non-monetary) and Intangible Benefits: (Identity and discuss other quantifiable and intangible benefits that may help to distinguish between alternatives with similar economic indicator values.)

12. Conclusions and Recommendation:

ECONOMIC ANALYSIS FORMAT

	Constant Dollars (Base Year FY96)			Net Present Value (Discounted Dollars)	Constant Dollars (Inflated)
Evaluation Period*	Operations Costs		Benefits	Benefits	Benefits
	Status Quo	Alternative A	(Differential Costs)	(Differential Costs)	(Differential Costs)
(1)	(2)	(3)	(4) = (2) - (3)	(5) = (4) x Disc. Fac	(5) = (4) x Disc. Fac
FY96					
FY97					
FY98					
FY99					
FY00					
FY01					
FY02					
FY03					
FY04					
FY05					
Residual Value			$ XXX	$ XXX	$ XXX
TOTAL	$ XXX	$ XXX	$ XXX (9)	$ XXX (11)	$ XXX (7)
		Investment Cost		Investment Cost	Investment Cost
		$ XXX (10)		$ XXX (12)	$ XXX (8)
		Project Total			
		$ XXX			

*Number of years based on projected economic life of the capital asset (5 - 20 years depending upon the asset's depreciation period)

Repeat Economic Analysis Format for each alternative.

CHAPTER 59

LIABILITIES

A. GENERAL STANDARDS

1. General Information. General information relating to liabilities may be found in Chapter 8, "Liabilities," Chapter 9, "Accounts Payable," Chapter 10, "Accrued Personnel Liabilities," and Chapter 13, "Other Liabilities," of Volume 4 of this regulation.

2. Definition of the Term "Liability". A liability is a probable and measurable future outflow of resources arising from past transactions or events.

3. Liabilities Covered by Budgetary Resources (Funded Liabilities). These are liabilities incurred which will be covered by available budgetary resources. Budgetary resources include: (a) new budget authority; (b) offsetting collections credited to an appropriation or fund account; (c) recoveries of unexpired budget authority through downward adjustments of prior year obligations; and (d) unobligated balances of such resources at the beginning of the year or transferred in during the year.

a. Intragovernmental Funded Liabilities. Intragovernmental liabilities, for the Defense Business Operations Fund, are claims against the DBOF by non-DBOF DoD and other federal entities. Intragovernmental liabilities include accounts payable to non-DBOF DoD and other federal entities and other current liabilities such as advances and prepayments received from those entities.

b. Governmental Funded Liabilities. Governmental liabilities, for the Defense Business Operations Fund as well as for other DoD entities, are amounts that the federal government or an entity within the federal government owes to nonfederal entities. The term "nonfederal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government. The term "public" is also used to represent nonfederal entities. Governmental liabilities include accounts and interest payable to nonfederal entities, other liabilities due to nonfederal entities, and advances and prepayments received from nonfederal entities.

4. Liabilities Not Covered by Budgetary Resources (Unfunded Liabilities). These are liabilities incurred which are not covered by available budgetary resources. These include liabilities resulting from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods, for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or earnings of the entity. Notwithstanding an expectation that the appropriations will be made, whether they in fact will be made is completely at the discretion of the Congress.

a. Intragovernmental Unfunded Liabilities. These are liabilities, not covered by available budgetary resources, that arise from transactions among federal entities.

b. Governmental Unfunded Liabilities. These are liabilities, not covered by available budgetary resources, that arise from transactions with nonfederal entities.

5. Recognition of Liabilities. A liability should be recognized when it is incurred, regardless of whether it is covered by available budgetary resources. Financial statement disclosure should be made for liabilities that are not covered by available budgetary resources.

B. SPECIFIC STANDARDS

1. Accounts Payable. Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities. Accounts payable are not intended to include liabilities related to on-going continuous expenses such as employees' salary and benefits, which are covered by other current liabilities. Amounts owed for goods or services received from federal entities represent intragovernmental transactions and should be reported separately from amounts owed to the public.

2. Recognition of Accounts Payable. When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated. When a contractor provides the government with goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the government receives them and takes formal title. However, when a contractor builds or manufactures facilities or equipment to the government's specifications, formal acceptance of the products by the government is not the determining factor for accounting recognition. Constructive or de facto receipt for facilities or equipment constructed or manufactured according to agreements or contract specifications occurs in each accounting period based on an estimate of work completed under the contract or agreement. The estimate of such amounts should be based primarily on the federal entity's engineering and management evaluation of actual performance progress and incurred costs. As a rule, actual performance progress and incurred costs are evidenced by progress billings from the contractor and are verified by the contract administrator.

3. Interest Payable. Interest payable should be recorded for the amount of interest expense incurred and unpaid. Within the DoD, interest payable results primarily from late payment of bills by a DoD activity (see provisions in 31 U.S.C. 3901 through 3907, Prompt Payment) and on refunds (see provisions in 26 U.S.C. 6611). The provisions of the Prompt Payment Act require that interest penalties by paid from funds available to carry out the programs for which the penalty was incurred, that is, interest penalties under the Prompt Payment Act shall be charged directly to the account that funds the payment of the underlying liability.

4. Other Current Liabilities. The term "other current liabilities" is used to report current liabilities that are not recognized in specific categories such as accounts payable; interest payable; debt owed to the public, Treasury, or other entities; and liabilities for loan guarantee losses. Other current liabilities due to federal entities are intragovernmental liabilities that should be reported separately from those due to employees and the public. Other current liabilities include unpaid expenses that are accrued for the fiscal year for which the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date. Examples of "other current liabilities" are:

a. Accrued employees wages, bonuses, and salaried for services rendered in the current fiscal year for which paychecks will be issued in the following year.

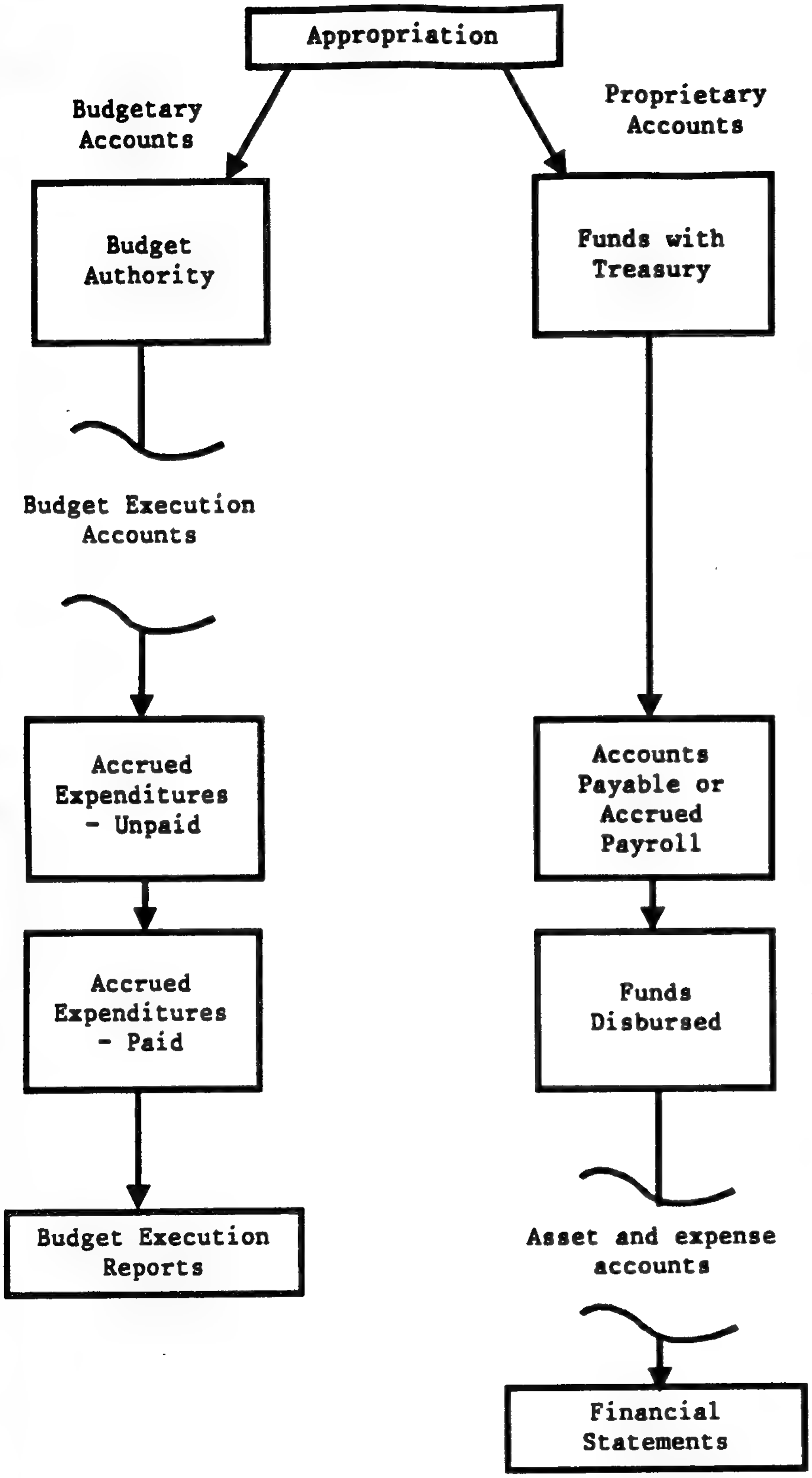
b. Advances and prepayments received for goods to be delivered or services to be performed. An advance equal to the price of an item shall be collected before delivery or shipment of an item to customer who is not chartered, sanctioned, authorized, or under contract to perform a function of the Federal Government. Federal Government nonappropriated fund instrumentalities are authorized to perform a morale, welfare, and recreation function for the Federal Government. Before revenues are earned, the current portion of the advances and prepayments should be recorded as other current liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made according to engineering evaluations), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly.

5. Relationship of liabilities to obligations. A federal entity, under budgetary accounting, records an obligation (i.e., an undelivered order) when the entity places a purchase order or signs a contract. An obligation, once incurred, reduces an entity's resources available for obligation. Budgetary accounting entries are required to record the amounts obligated and to reduce the available budget authority. For financial reporting purposes, liabilities are recognized when goods and services are received or are recognized based on an estimate of work completed under a contract or agreement. When liabilities are recognized, the undelivered order recorded in budgetary accounts is reduced and an accrued expenditure-unpaid is recorded. Addendum 1 illustrates this relationship.

6. Supporting Records. Supporting records shall be maintained for all liabilities. The supporting record shall identify the amount owed by individual transaction, the date recorded, and the identity of the payee. At least quarterly, the supporting records shall be reconciled with the general ledger balance. All differences shall be investigated and all errors corrected.

7. More specific and detailed information on the accounting for liabilities are contained in Volume 4, "Accounting Policies and Procedures," of this Regulation.

BUDGETARY AND PROPRIETARY ACCOUNTING RELATIONSHIPS



Comments

Compound entry to both types of accounts required to record budget authority and funds available.

Transactions to execute the budget are contained in the budget execution accounts. During this accounting phase transactions are not posted to the proprietary accounts. Transactions begin posting to the proprietary accounts when performance has been received.

Compound entry required to both types of accounts when performance has been received or an accrual established.

Compound entry required to both types of accounts to record cash disbursements. Budgetary transaction complete unless a refund or error correction is required.

Transactions to track disposition of assets obtained with appropriations are captured in the proprietary accounts. Amounts to be either capitalized or expensed, as appropriate.

Addendum 1

CHAPTER 60

EQUITY

A. EQUITY

General information relating to equity may be found in Chapter 16, "Equity," of Volume 4 of this regulation. The equity accounts authorized for use by the Defense Business Operations Fund are listed below. A description of each account and illustrative accounting entries are contained in paragraph B. of this chapter. The Defense Business Operations Fund equity accounts are:

- 3211 Capital Investment - DBOF
  - 3211.1 Appropriations Available
  - 3211.2 Assets Capitalized
  - 3211.3 Liabilities Assumed
- 3220 Transfers In from Others Without Reimbursement
- 3230 Transfers Out to Others Without Reimbursement
  - 3231 Transfers Out to Government Agencies Without Reimbursement
  - 3232 Transfers Out to All Others Without Reimbursement
- 3310 Cumulative Results of Operations
  - 3311.1 Cumulative Results of Operations - DBOF
  - * 3311.2 Cumulative Results of Operations - DBOF - Deferred
- 3320 Net Results of Operations
  - 3321 Net Results of Operations - DBOF

B. EQUITY ACCOUNT DESCRIPTION AND ILLUSTRATION

1. Account 3211, Capital Investment - DBOF. Accounts subsidiary to the summary account 3211, "Capital Investment - DBOF," have been established to meet the financial reporting requirements of the Defense Business Operations Fund. The necessary subsidiary accounts are shown below:

a. Account 3211.1, Appropriations Available. Account 3211.1, "Appropriations Available," shall be used to record amounts appropriated or reappropriated to establish or increase the working capital of the Defense Business Operations Fund. Increases occur upon appropriation or reappropriation. Decreases occur primarily when the appropriation is used. Decreases also occur when previously appropriated and/or reappropriated amounts are returned to the U.S. Treasury or to another appropriation or fund. Chapter 52, "Budgetary Resources," of this Part contains additional information on the use of this account. Sources of entries to the "Appropriations Available" account include TFS Form 6200, "Department of the Treasury Appropriation Warrant," and SF-1151, "Nonexpenditure Transfer Authorizations." The following illustrate the most common entries to this credit-balance account:

Dr 1013 Funds With Treasury
Cr 3211.1 Appropriations Available

To record the receipt of capital appropriated for the Defense Business Operations Fund.

Dr 3211.1 Appropriations Available
Cr 5700 Appropriated Capital Used

To record the use of an appropriation.

NOTE: Account 5700, "Appropriated Capital Used," is an account established to disclose an appropriated financing source. The above entry serves to reduce the appropriated balance. More information on account 5700 and associated expense entries is contained in Chapter 53 of this part. At fiscal year end, Account 5700 is closed to account 3321, "Net Results of Operations - DBOF."

Dr 3211.1 Appropriations Available
Cr 1013 Funds With Treasury

To record the return to Treasury of capital appropriated for the Defense Business Operations Fund.

b. Account 3211.2, Assets Capitalized. Account 3211.2, "Assets Capitalized," shall be used to (1) record, as an increase, the net book value of assets such as operating materials and supplies, work in process at contractor plants, work in process at other Government plants, and contributed assets that were initially recorded to account 3220, "Transfers-In From Others Without Reimbursement," and (2) record decreases due to the transfer out, donation, or other disposal of contributed capital assets that were initially recorded to account 3231, "Transfers-Out To Other Government Agencies Without Reimbursement," and 3232, "Transfers-Out To All Others Without Reimbursement." Transfers-in and transfers-out are initially recorded to, as applicable, to account 3220, "Transfers-In from Others Without Reimbursement," account 3231 "Transfers-Out to Government Agencies Without Reimbursement," and account 3232
* "Transfers-Out to all Others Without Reimbursement." Additionally, account *
* 3211.2 shall be reduced (debited) monthly, at a minimum, by the amount of *
* depreciation expense recorded that month on donated and other assets financed *
* by other than DBOF resources. The offsetting (credit) entry shall be to a *
* financing source account 5790, Invested Capital Used.". Those accounts are *
closed, at the end of a fiscal year, to "Assets Capitalized." Sources of entries to the "Assets Capitalized" account are property records and journal vouchers. The following illustrate the most common entries to this credit-balance account:

Dr 3220 Transfers-In From Others Without Reimbursement
Cr 3211.2 Assets Capitalized

To close the value of assets transferred-in without reimbursement during the fiscal year.

Dr 3211.2 Assets Capitalized
Cr 3231 Transfers-Out To Other Government Agencies Without Reimbursement
Cr 3232 Transfers-Out To All Others Without Reimbursement

To close the value of assets transferred out without reimbursement during the fiscal year.

Dr 3211.2 Assets Capitalized
Cr 5790 Invested Capital Used

To record, as a financing source, the monthly benefit received from the use of non-DBOF assets. The benefit received shall be equal to the depreciation expense recorded for those assets during the same period.

c. Account 3211.3, Liabilities Assumed. Account 3211.3, "Liabilities Assumed," shall be used to (1) record the sum of the amounts assumed without accompanying payment for accrued annual leave and other liabilities transferred-in, and (2) record holdbacks on progress billings from contractors at the time of initial capitalization (if payment in the form of cash or other assets was not received in sufficient amount to cover the liability). Sources of entries to the "Liabilities Assumed" account are journal vouchers. The following illustrates common entries to this debit-balance account:

Dr 3211.3 Liabilities Assumed
Cr 2130 Contract Holdbacks

To record the amount of holdbacks on progress billings from contractors transferred in without accompanying payment upon reorganization of an appropriated fund activity to a Defense Business Operations Fund activity.

Dr 3211.3 Liabilities Assumed
Cr 2221 Accrued Annual Leave - Civilian (Unfunded)

To record the amount of unfunded annual leave transferred in without accompanying payment upon reorganization of an appropriated fund activity to a Defense Business Operations Fund activity.

2. Account 3311.1, Cumulative Results of Operations - DBOF. Account 3311.1, "Cumulative Results of Operations - DBOF," is authorized for use by Defense Business Operations Fund activities. Account 3311.1, "Cumulative Results of Operations - DBOF," shall be used primarily to accumulate the net difference between expenses and financing sources since inception through the annual closing of the balance in account 3321, "Net Results of Operations - DBOF," and account 7400, "Prior Period Adjustments." The following illustrates common entries to this debit/credit-balance account:

Dr 3321 Net Results of Operations - DBOF
Cr 3311.1 Cumulative Results of Operations - DBOF

Entry to record, at fiscal year end, a net gain from operations.

Dr 3311.1 Cumulative Results of Operations - DBOF
Cr 3321 Net Results of Operations - DBOF

Entry to record, at fiscal year end, a net loss from operations.

Dr 7400 Prior Period Adjustments
Cr 3311.1 Cumulative Results of Operations - DBOF

Entry to record, at fiscal year end, prior period adjustments that result in a net increase to equity.

Dr 3311.1 Cumulative Results of Operations - DBOF
Cr 7400 Prior Period Adjustments

Entry to record, at fiscal year end, prior period adjustments that result in a net decrease to equity.

NOTE: Account 7400, "Prior Period Adjustments" is not closed to "Net Results of Operations." Rather, it is closed directly to account 3311, "Cumulative Results of Operations - DBOF," at the end of each fiscal year. Account 7400, "Prior Period Adjustments," is used ONLY to correct errors of entries that were made, or not made, in prior years to accounts, such as revenue, expense, gain, and loss accounts, that were closed to and thereby affected equity.

3. Account 3311.2, Cumulative Results of Operations - DBOF - Deferred. Account 3311.2, "Cumulative Results of Operations - DBOF - Deferred," is authorized for use by Defense Business Operations Fund activities. Account 3311.2, "Cumulative Results of Operations - DBOF - Deferred," shall be used to disclose any portion of accumulated operating results that has been deferred for recovery from, or return to, customers in the subsequent fiscal year stabilized rate or standard price development. Entries to this account:

a. Shall not be made unless authorized by the next higher command. Documentation to demonstrate higher level authorization shall be retained for, and made available for audit.

b. Shall be traceable to specific direction received from the Office of the Under Secretary of Defense (Comptroller) to defer recovery or return of accumulated operating results.

* c. Shall agree with amounts reported on Part V, "Recoverable *
* Operating Results," of the DBOF Monthly AR 1307 Statement of Operations. *

The following illustrates common entries to this debit/credit-balance account:

* Dr 3311.2 Cumulative Results of Operations - DBOF - Deferred
Cr 3311.1 Cumulative Results of Operations - DBOF

Entry to record a deferral of a negative accumulated operating results. (This entry must be supported by a specific authorization from the next higher command.)

Dr 3311.1 Cumulative Results of Operations - DBOF
* Cr 3311.2 Cumulative Results of Operations - DBOF - Deferred

Entry to record a deferral of a positive accumulated operating results. (This entry must be supported by a specific authorization from the next higher command.)

4. Account 3321, Net Results of Operations - DBOF. Account 3321, "Net Results of Operations - DBOF," is authorized for use by Defense Business Operations Fund activities. Account 3321, "Net Results of Operations - DBOF," shall be used to accumulate the net difference between expenses and financing sources during a fiscal year. Account 3321 is closed to account 3311, "Cumulative Results of Operations - DBOF," at the end of each fiscal year. The following illustrates common entries to this debit/credit-balance account:

Dr 5101 Revenue From Goods Sold - DBOF
Dr 5201 Revenue From Services Provided - DBOF
Cr 3321 Net Results of Operations - DBOF

Entry to close the revenue accounts at the end of the fiscal year.

Dr 7110 Gains on Disposition of Assets
Dr 7190 (Series) Other Gains
Dr 7300 Extraordinary Items (Gains)
Cr 3321 Net Results of Operations - DBOF

Entry to close the "gain" accounts (7100 series) at the end of the fiscal year.

Dr 3321 Net Results of Operations - DBOF
Cr 6500 Cost of Goods Sold

Entry to close the cost of sales account at the end of the fiscal year.

Dr 3321 Net Results of Operations - DBOF
Cr 7210 Losses on Disposition of Assets
Cr 7290 (Series) Other Losses
Cr 7300 Extraordinary Items (Losses)

Entry to close the "loss" accounts (7200 series) at the end of the fiscal year.

CHAPTER 61

PROGRESS BILLINGS, REIMBURSEMENTS, AND REVENUE RECOGNITION

A. REIMBURSEMENTS

1. General Information. General information relating to topics discussed in this chapter may be found in Chapter 17, Revenue, Expenses, Gains, and Losses," and Chapter 19. "Revenues," of Volume 4 of this regulation.

2. Reimbursement Principles. As a general principle, each activity operating under the Defense Business Operations Fund shall be reimbursed for the costs of all goods and services ordered and produced as a result of those orders. Defense Business Operations Fund billings and reimbursements from ordering activities for services or goods provided shall be accomplished in the most efficient and expeditious manner available to reduce or eliminate the need for additional Defense Business Operations Fund working capital. The nature of the Defense Business Operations Fund requires ordering agencies to budget, control, and account for the cost of all goods and services ordered. As a result, a Defense Business Operations Fund activity:

a. Shall bill ordering activities for all costs incurred as a result of an accepted order.

b. Shall bill order cancellation or reduction costs. When a job order is canceled or reduced in scope after a DBOF activity has commenced work or incurred costs on the order, the costs incurred, plus the applied overhead (that is, indirect and other normally allocated overhead (G&A) costs) plus costs associated with the cancellation or reduction shall be charged to the customer. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, non creditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, costs charged to customers should include the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs. Costs which are indirectly associated with cancellation or reduction actions shall not be charged to the customer. Although normally allocated G&A costs shall be charged to cancelled or reduced customer orders, underapplied overhead costs that may result in the DBOF activity as a whole from a reduced workload base shall not be charged to the customer cancelling or reducing their order but shall be recorded against the net operating results of the performing DBOF activity.

c. Shall not enter into any arrangement to "offset" services received and services furnished.

* 3. Reimbursement for Contingency Operations and Humanitarian Efforts. *
* All DBOF business areas, including transportation services provided by the *
* United States Transportation Command (USTRANSCOM), operate on a reimbursement *
* basis with users paying for goods and services provided. Payment for contin- *

gency operations, including deployment or other emergency response for military or humanitarian assistance, is no exception: The users ordering the DBOF service must pay the bill, and no orders are to be accepted without funding. The Military Department Headquarters is responsible for determining which level within the Military Department will pay (that is, the unit, major command, or Military Department level). This process also applies when a Unified Combatant Command tasks a Service-funded unit to perform a mission (such as transportation of military personnel or equipment by the USTRANSCOM). The Military Department that controls the equipment or personnel is responsible for payment of costs incurred to accomplish the mission. The sole exception to this policy occurs when the USTRANSCOM receives an order from the Joint Chiefs of Staff requiring transportation of non U.S. owned equipment and/or non U.S. personnel such as unreimbursed efforts in support of the United Nations. In those instances, the Army will pay Military Traffic Management Command (MTMC) costs, the Navy will pay Military Sealift Command (MSC) costs, and the Air Force will pay Air Mobility Command (AMC) costs. Bills may be centralized for more convenient processing if appropriate; however, billings shall be forwarded to the appropriate Military Department within 30 days from commencement of the contingency operation or humanitarian effort. Payment of these bills, including transportation bills, by the Military Departments must be made in a timely manner. This guidance does not address any contingency operations designated by the Secretary of Defense as a "National Contingency Operation" under the provision of United States Code title 10, Section 127. Special rules apply for such an operation and those rules should be promulgated separately in conjunction with any designation by the Secretary of Defense under the provisions of that section.

4. Reimbursement Bases. Billings to the Department of Defense and other Federal Government customers shall be developed on the basis of either stabilized unit prices (also termed standard prices), or stabilized rates. All other ordering activities; that is, private parties and concerns including those not officially representing the Federal Government; state and local governments; and foreign military sales shall reimburse the Defense Business Operations Fund activity for the full costs incurred by the Federal Government. Full costs are determined by application of the stabilized rates or unit prices as those stabilized rates and prices are set to achieve an accumulated operating result of \$-0- in the budget year. Defense Business Operations Fund rates and unit prices, once established in the budget process, shall be held stable for the applicable fiscal year, unless changes are specifically approved by the Under Secretary of Defense (Comptroller). Stabilized rates and unit prices shall be established to recover operating expenses estimated to be incurred for the applicable fiscal year and to provide sufficient working capital for the acquisition of fixed assets as approved by the Under Secretary of Defense (Comptroller). (That is, stabilized rates and unit prices shall be established at levels intended to provide for estimated revenues to equal estimated costs plus approved surcharges for the applicable fiscal year for which the rates and unit prices are established.) Stabilized rates and unit prices must be billed to the customer for the work performed. Gains or losses resulting from under or over applied stabilized rates and/or prices shall be carried forward for inclusion in subsequent year stabilized rates and/or prices.

5. Advance Payment Billings. Orders from the public, including State and local governments, must be accompanied by an advance. In addition, on an exception basis, advances may be requested, if directed by the Under Secretary of Defense (Comptroller) or other authorizing official, on orders from DoD and other Federal Government accounts. Revenue billings to customers shall reflect due credit for the advances received.

6. Progress Payment Billings. As a rule, reimbursement for the costs incurred in producing goods and services ordered by customers shall be made on a progress payment basis. Exceptions to the rule include orders that are expected to cost $25,000 or less or are expected to be completed within 60 days of acceptance. It is important to note the differences among advance payment, progress payment, and revenue billings. Advance payment billings are those made prior to the start of work and incurrence of costs associated with the ordered good or service. Progress billings are those made prior to, or during the start of work but always after the incurrence of costs associated with the ordered good or service. Revenue billings are those made after the start of work but only to the extent that evidence establishes that revenue has been earned. In no case shall an advance payment, progress payment, or revenue billing be processed that would result in the total billed amount exceeding the amount of the order. Billings and collections for progress payments shall be accomplished at least monthly including applicable labor, material, overhead, and surcharges as well as the value of material in inventory that is identified and held in reserve for specific orders, and amounts of work in progress in contractors' plants and other Government plants that are identified to specific orders. The billings should be made as late as possible in the month so that they shall include the above items to the maximum extent possible and still permit the orderly processing of the collection in the same month. Every effort should be made to reduce the billing and collection lag so that a greater portion of the costs shall be recovered in the same month they are incurred.

7. Revenue Recognition Policy

a. General. Revenue and associated costs must be recognized in the same accounting period. Revenue must be recognized in the same manner (that is, a standard policy for recognizing and reporting revenue must apply) for all activities within a DBOF business area. The amount of revenue recognized cannot exceed the amount specified in the order.

b. Depot Maintenance Business Area Activities. Activities in the Depot Maintenance business areas (includes: Army Ordnance and Other Maintenance Facilities; Navy Shipyards, Aviation Depots, and Ordnance Facilities; Marine Corps Other Maintenance Facilities; and Air Force Aviation Depots) shall recognize revenue using the following policies:

(1) Completed Order Method. The completed order method shall be used for all orders that have an estimated value of less than $1,000,000, or a planned production cycle of less than 12 months. Under this method, both the revenue earned and the associated costs incurred in completing an order will be recognized when the order is completed. A work-in-process account shall be used to capture and hold costs prior to their recognition as a cost of goods sold.

(2) Percentage of Completion Method. The percentage of completion method shall be used for all orders that have an estimated value of $1,000,000 or more, and a planned production cycle of 12 months or more. Under this method, the revenue earned on an order will be recognized monthly based on the ratio that the costs incurred to date on that order bear to the total costs estimated to be incurred on the order when it is completed.

c. Transportation Business Area Activities. Activities in the Transportation business area shall recognize revenue based upon receipt of a cargo manifest or the commencement of travel.

d. Supply Management Business Area Activities. Activities in the Supply Management business area shall recognize revenue, and related costs, when an item is dropped from inventory for sale or other revenue generating disposition.

e. Commissary Resale Business Area Activities. Activities in the Commissary Resale business area shall recognize revenue, and related costs, at the point/time of sale, or when an item is otherwise disposed.

f. Distribution Depots Business Area Activities. Activities in the Distribution Depots business area shall recognize revenue, and related costs, based on one of the following events:

Event	Revenue Recognized Upon
Receipt of Items	Receipt of an Item
Issuance of Items	Issuance of an Item
Other Services	Rendering of Service

In the event that a service is rendered, revenue shall be considered earned, and recognized, and associated costs shall be reported, at the time that the service is rendered/performed, but not less frequently than monthly.

g. Navy Research and Development Business Area Activities. Activities in the Navy Research and Development business area shall use the following revenue recognition policy:

(1) For end-item production orders:

(a) Completed Order Method for all orders that have an estimated value of less than $1,000,000, or a planned production cycle of less than 12 months. Under this method, both the revenue earned and the associated costs incurred in completing an order will be recognized when the order is completed. A work-in-process account shall be used to capture and hold such costs prior to their recognition as a cost of goods sold.

(b) Percentage of Completion Method for all orders that have an estimated value of $1,000,000 or more, and a planned production cycle of 12 months or more. Under this method, the revenue earned on an order will be recognized monthly based on the ratio that the costs incurred to date on that order bear to the total costs estimated to be incurred on the order.

(2) For Service orders (all orders other than those for end-item production orders):

(a) Service-type revenue recognition method shall be used for all service orders (orders other than those involving the production of end-items). Under this method, revenue shall be considered earned, and recognized, and the associated costs reported, at the time that the service is rendered/performed, but no less frequently than monthly. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

h. Other Business Area Activities. Activities in all other business areas (includes Financial Operations, Base Support, Information Services, Industrial Plant Equipment, Reutilization & Marketing, Technical Information, Logistics Support Activities and Printing & Publications) not discussed in paragraphs A.6.b. through A.6.g. above shall use the service-type revenue recognition policy. Under this method, revenue shall be considered earned, and recognized, and the associated costs reported, at the time that the service is rendered/performed, but not less frequently than monthly. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

8. Revenue Billings. The customer funding an order shall be billed for the revenue recognized, or when advance payments or progress payments have been previously billed, those advance or progress payments shall be relieved to the appropriate revenue account. Revenue to be recognized under the percentage of completion method should not be measured by progress billings as progress billings are intended to reimburse costs incurred and, as such, are not intended to measure the order's percentage of completion. In no case shall the total amount of revenue recognized and billed exceed the amount of the order.

9. Types of Orders. There are two general classifications of orders -- Service type and End-Item type.

a. Service Type Orders. The following are description of applicable projects and work that should be classified as service type orders:

(1) Research and Development. Includes the conduct and support of research and development, including basic research, theoretical studies, scientific experiments, applied research, feasibility studies, systems engineering, design studies, weapon systems analysis and operations research, developmental engineering (including developmental engineering in connection with procurement, production and modification) and fabrication of experimental models and prototypes. Does not include production of items for service testing or engineer-user testing. These latter examples are end-product type orders.

(2) Transportation Services. Includes traffic management and transportation (air, land, and sea) services. Also include operation of ports, port facilities and related sub-installations, including holding and reconsignment points engaged in cargo and passenger transshipment activities. Also includes the operation of docks, piers, terminals or similar facilities, and wharfage, ferrying, lighterage and stevedoring.

(3) Communication and Information Services. Includes communication services and data processing services (other than financial services and technical information) rendered.

(4) Financial Operations. Includes provision of finance and accounting procedures, systems and operations by the Defense Finance and Accounting Service.

(5) Technical Information. Includes central collection and dissemination for DoD technology base information. Includes provision of access to, and transfer of, scientific and technical information. Also includes provision of computer modeling, data services, and response to requests for solutions to technological problems of the Military Departments.

(6) Printing Services. Includes revenues of activities whose primary mission is printing and reproduction services as well as printing performed by other activities for tenants, satellites or other off-post activities.

(7) Distribution Depots. Includes management and procurement of designated national stock numbers for all DoD customers.

(8) Supply Operations. Includes receipt, reclamation, storage, and issue of consumables and reparable items.

(9) Contract Management. Includes expediting the products and services delivered by industry, assuring that the specifications of the contract are met and paying contractor invoices for these items. Also includes surveillance of contractor operations to assure compliance with contractual requirements and determining the effectiveness of contractor quality control systems and inspection procedures, and officially accepting materiel on behalf of the Government after certifying its conformance to contract provisions. Also includes provision of on-site assistance to program managers, such as representation and participation in meetings and informal program/contract reviews.

(10) Base Support. Includes facilities maintenance, family housing services, other housekeeping services, and administrative functions, provided to tenants and others. Also includes provision of utility services (steam, electricity, water, sewage disposal, and gas).

(11) Engineering Services. Includes provision of technical and engineering assistance in matters relating to various weapon systems and industrial plant equipment and associate system when they do not relate to research and development projects. Also includes repair service and quality evaluation; that is, inspecting, calibrating, testing, evaluating, trimming and re-engineering of items.

(12) Support of Reserve (Under and Unutilized) Capacity. Includes maintenance of unutilized capacity and support of underutilized capacity.

(13) Commissary Services. Includes operation of Defense commissaries. Also includes provision of troop issue subsistence and programming of the replacement of War Reserve Material rotation rations.

(14) Reutilization and Marketing Service. Includes the reuse of excess and surplus property within the government and other authorized agencies, donation to local governments, and the sale of the remaining property to the public on a competitive basis.

(15) Other Services. Includes services not otherwise classified.

b. End-Product Type Orders. The following are description of applicable projects and work that should be classified as end-product type orders:

(1) Overhaul and Repair. Overhaul or a complete rebuilding of parts, assemblies, subassemblies, and end items.

(2) Manufacture and Assembly. Includes furnishing customers with new end-items and components, manufacture of prototypes or items furnished to the customer for test.

(3) Ordnance. Includes the receipt, segregation, DeMilitarization, storage, assembly/disassembly, test, maintenance, and issue or shipment of ammunition, ordnance, and weapons.

(4) Construction and Conversion. Includes construction and conversion of property and equipment.

(5) Alteration and Modification. Includes alteration and modification of property and equipment.

(6) Other Products. Includes products not otherwise classified such as the production of research and development items for service testing or engineer-user testing.

B. ACCOUNTING ENTRIES

1. General. Accounting entries which may help to illustrate and further explain the preceding concepts follow. The accounting entries illustrate the general entries required when the reimbursable program is automatically apportioned. Essentially the same entries are required when the reimbursable program is specifically apportioned., but using accounts designated for that purpose.

2. Acceptance of Customer Order

a. Without Advance Payment

Dr 4581 Automatic Reimbursement Program
Dr 4231 Unfilled Customer Orders - Without Advance - Automatic Apportionment
Cr 4221 Customer Orders Accepted - Automatic Apportionment
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Entry to record acceptance of a customer order not accompanied by an advance payment.

b. With Advance Payment

Dr 4581 Automatic Reimbursement Program
Dr 4233 Unfilled Customer Orders - With Advance - Automatic Apportionment
Cr 4221 Customer Orders Accepted - Automatic Apportionment
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period

Dr 1011.1 Funds Collected - Operating - DBOF
Cr 2312 Unearned Revenue - Advances from the Public

Entry to record acceptance of a customer order accompanied by an advance payment.

3. Progress Billing to Customers

Dr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment
Cr 4231 Unfilled Customer Orders - Automatic Apportionment

Dr 1311 Accounts Receivable - Government - Current
Cr 2994 Progress Billings to Others

Progress billing to a customer prior to completion of the customer order.

Dr 4253 Reimbursements Earned - Collected - Automatic Apportionment
Cr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment

Dr 1011 Funds Collected
Cr 1311 Accounts Receivable - Government - Current

Progress billing collected from a customer.

4. Revenue Recognition - Percentage of Completion

Dr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment
Cr 4231 Unfilled Customer Orders - Automatic Apportionment

Dr 6500 Cost of Goods Sold
Dr 1311 Accounts Receivable - Government - Current
Dr 2994 Progress Billings to Others (See NOTE 1/)
Dr 2312 Unearned Revenue - Advances from the Public (See NOTE 2/)
Cr 1581 Work In Process - In-House
Cr 1582 Work in Process - Contractor
Cr 5100 and/or 5200 Revenue

Entry to recognize revenue prior to completion of work on customer order.

NOTE 1/: Revenue to be recognized under the percentage of completion method should not be measured by progress billings. However, the amount, if any, of previous progress billings shall be reduced by the amount of revenue recognized. There may be a balance remaining in account 2994, "Progress Billings to Others," as the progress billing may include all or a portion of items such as material and subcontract costs. The remaining amount, to the extent that it does not exceed the amount of the reimbursable order, shall be recognized as applicable in subsequent revenue billings.

NOTE 2/: Advances received from Federal Government customers prior to cost incurrence or work completion are recorded in account 2311, "Unearned Revenue - Advances from Government Agencies and Funds." Advances received from non Federal Government customers, including State and local governments, prior to cost incurrence or work completion are recorded in account 2312, "Unearned Revenue - Advances from the Public." As revenue is recognized, the applicable "Unearned Revenue" account is adjusted in a corresponding amount.

5. Reimbursement Received for Work on Customer Orders

Dr 4253 Reimbursements Earned - Collected - Automatic Apportionment
Cr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment

Dr 1011 Funds Collected
Cr 1311 Accounts Receivable - Government - Current

Entry to record reimbursement for work on customer order. This entry is appropriate for both periodic recognitions of revenue under the percentage of completion method and for completed work.

C. REQUIREMENTS OF ORDERS FOR WORK TO BE PERFORMED

1. DoD Components (or any activity thereof) ordering work or services from a Defense Business Operations Fund financed activity shall use a project

order whenever such an order may be issued under the requirements of DoD Instruction 7220.1, "Regulations Governing the Use of Project Orders." When orders for work or services cannot qualify as project orders, they may not be so designated. Examples of orders that do not qualify as project orders are printing requests, orders for transportation of personnel and material, utility services, and other service orders -- including orders covering the cost of maintaining unutilized and underutilized plant and equipment. An order, when accepted by the performing activity, shall be obligated by the issuer of that order at that time. Any order for recurring services or for any object that may not be obligated by the ordering agency beyond the end of the current fiscal year shall be limited to the cost of performance within that fiscal year.

2. Each project order or other order accepted by a Defense Business Operations Fund activity shall state specifically the basis of reimbursement to the Defense Business Operations Fund for the cost of work or services ordered, as between fixed price or cost reimbursement. The terms and conditions for pricing orders set forth in DoD Instruction 7220.1 shall apply to all project orders accepted by a Defense Business Operations Fund activity. Policy applicable to reimbursements from other than Federal Government accounts is contained in Part A, chapter 21, "Reimbursements," of this volume. All orders accepted by a Defense Business Operations Fund activity shall be in writing; for a purpose authorized by law; executed before cancellation of the issuing appropriation; and must call for specific goods, real property, work, or services. Orders placed with a Defense Business Operations Fund activity shall not be subject to accounting and reporting requirements similar to those applicable to allotments.

3. As a general rule, no work or service should be performed by a Defense Business Operations Fund activity except on the basis of reimbursable orders received and accepted that constitute obligations of Federal Government ordering activities or advances from non Federal Government entities. Work for customers may begin in advance of receipt and acceptance of a formal order under two circumstances. They are as follows:

a. Letter of Intent Orders. When it is desirable, in the interest of economical operations, to incur limited costs in advance of the receipt of a regular order for an authorized program for which customer funds are available, such work or services may be undertaken on the basis of a letter of intent. This letter constitutes an obligation of the ordering activity in a stated amount sufficient to cover the advance costs that may be incurred.

b. Commanding Officer's Orders. When it is necessary to begin work of an emergency nature prior to the receipt of an order, a commanding officer's order or similar order may be issued by the commander of the Defense Business Operations Fund activity subject to the following conditions:

(1) The Defense Business Operations Fund activity must have written assurance that an order shall be issued promptly or shall have equivalent documented communication. The use of such orders should be limited to situations in which there are bona fide emergencies arising from unforeseen

urgent requirements. A commanding officer's order must not be used as a normal procedure to circumvent administrative leadtimes that should be considered in advance planning.

(2) A commanding officer's order shall expire within 30 days from the date of issuance.

(3) A commanding officer's order shall be issued on a local form and shall be approved and signed by the commanding officer or an authorized representative.

4. Each Defense Business Operations Fund activity shall record promptly all orders accepted and shall account continuously for the status of all orders in terms of deliveries, billings, and unfilled balances, so as to provide a basis for scheduling production or operations, determining backlogs of work and the need for additional orders or reduced activity, preparing operating budgets and forecasts, and informing customers promptly concerning changes in delivery schedules.

D. PRICING FOR SOFTWARE SERVICES

1. General. Central design activities (CDAs) and their customers should, through negotiation, define specific near-term tasks, identify deliverables, and fix the price for each negotiated task. Full requirements may not be known early in the system design and development phases. The nature of requirements refinement could discourage use of firm fixed price agreements for software development until detailed system design specifications are approved by the functional customer. To help balance financial risk between CDAs and their customers, a range of pricing strategies are available to provide CDAs and their customers the flexibility needed to deal with variations in project size and complexity.

2. Pricing Strategies. The following pricing strategies are available for use:

a. Time and Materials. These are support agreements based on fixed rates for fully loaded billable direct labor hours, and material at cost (supported by time and cost reporting project control and accounting systems). Under this approach, CDAs base their estimates on available data. Then, they track variations to the estimates and review them to track variations to the estimates and review them to determine causes. Analysis enables estimate revisions, risk assessment, and initiation of corrective action. This type of agreement is appropriate for a development service such as application proto-typing, where accurate resource predictions are not possible. Once the CDA understands the target environment and associated risk areas, the pricing strategy will be either Firm Fixed Price for Increments of a Development effort or Firm Fixed Price for a Single Increment.

b. Firm Fixed Price Level of Effort. These agreements obligate a CDA to devote a specified number of support hours (fully loaded billable direct labor hours) over a stated time period for a fixed dollar amount. This type of agreement is appropriate for software maintenance support during the operations and support phase of an automated information system's (AIS) life cycle, where affordability is a major concern. This pricing strategy should not be used

during the development or production and deployment phases of an AIS's life cycle. During these phases, the preferred pricing strategy is fixed price for increments of a development effort.

c. Firm Fixed Price for Increments of a Development Effort. With "incrementally-priced" development agreements, a CDA works with the customer to define specific near-term tasks, identify deliverables, and fix the price for each agreed upon task or increment. For example, a CDA could limit the fixed price proposal for a new project or major modification to perform systems studies and develop a statement of requirements. Once the project progresses beyond this stage, the CDA continues to limit proposals to near-term (e.g., 6-month period) project deliverables. Under this approach, a CDA provides customers with estimates of total project costs for budget purposes. Depending on the level of detail used to develop the estimate, the CDA distinguishes for the customer between rough order of magnitude estimates, estimates suitable for budgeting, and detailed estimates. A CDA has the latitude to renegotiate agreements if customer requirements change. To balance financial risk for development programs, a CDA should develop means to assist customers in managing to fixed prices on increments of a project, resisting the temptation to estimate a substantial portion of the production requirement before the start of, or very early in, full-scale development.

d. Firm Fixed Price for a Single Increment. These agreements provide the customer a firm fixed price for completion of a total project, as a single increment. This type of agreement is appropriate for projects where customer requirements are well understood, easily defined, supported by precedent, and the detailed design specifications are approved by the customer. In these instances, risk to the CDA is lowest, and the customer should be able to obtain a firm fixed price for completion of even large projects at the beginning of the development effort.

E. BILLING, COLLECTION AND ACCOUNTING FOR SALES OF MATERIEL FROM SUPPLY SYSTEM STOCK

1. Scope. The automated billing system described in this chapter (commonly referred to as the "Interfund Billing System," normally encompasses all supply system sales and purchases of materiel, including perishable subsistence, bulk petroleum, oil, lubricants and into-plane aviation fuels issues.

2. Exceptions

a. The Interfund Billing System is not mandatory for Military Assistance Grant Aid sales and where only limited materiel sales occur between DoD Activities. In these cases, it may be more expedient to process billings through use of Standard Form 1080, "Voucher for Transfer Between Appropriations and/or Funds," or other approved billing documents than to utilize the Interfund Billing System.

b. The Interfund Billing System does not apply to sales made to other Federal Government Agencies, State and local governments, nonappropriated fund activities, individuals and commercial firms. Such issues will be billed and collected by "check issue" procedures.

c. The provisions of this section do not cover sales of major end items such as complete aircraft, ships, tanks, space vehicles and missiles, certain General Services Administration (GSA) stock fund sales and orders handled by Military Interdepartmental Purchase Requests (MIPRs) except for certain MIPRs issued to GSA as outlined in paragraph D.14. below.

3. Policy. Operating procedures, including the standard mechanized instructions and formats, to bill, collect and account for sale of materiel from supply system stock are contained in DoD Manual 4000.25-7M, "Military Standard Billing System (MILSBILLS)."

4. Billing, Collection and Accounting Policies for DoD Sales

a. Reimbursable sales will be billed based upon the drop from inventory date pursuant to requisition edit (to determine supply availability) by a supply activity, except that billings for sales of:

(1) Perishable subsistence, foreign military sales, and Military Assistance Grant Aid shipments will be based on constructive delivery.

(2) Bulk petroleum, oil, and lubricants (POL) will be based on receipt documentation provided that the documentation is received by the billing office within 15 days of the date of delivery. Otherwise, billing will be based on the quantity discharged from tankers or the quantity issued from inventory for delivery by other modes of shipment.

b. The accounting and finance officer servicing the supplying activity will effect automatic collection for sales of Supply Management Business Area materiel, including loss allowances and returns, and appropriation financed materiel from funds of the ordering activity. In all instances, Supply Management Business Area sales shall be billed separately from sales of appropriation financed materiel.

5. Principles of the Interfund Billing System

a. The billing office will credit the appropriation or fund of the selling activity that owns the materiel and/or finances the accessorial charges and charge the appropriations/funds of the purchasing activity.

b. The billed offices will record the disbursements for charges billed in the month in which the bills are received. Billed offices must match line items billed to line items ordered by requisition number. When the charge is determined to be invalid by the billed office, it will be entered in a suspense account as stated in paragraph D.10. below. Billed offices will exert every effort to charge the correct account initially so that transactions entered in the suspense accounts will be held to a minimum.

c. Billing offices will report the amounts collected (credits) and amounts of charges made to the ordering activities' appropriations/funds as evidenced in the summary billing cards to their central accounts offices, as listed in Chapter 2 of DoD Manual 4000.25-7M, "Military Standard Billing System (MILSBILLS)." The central accounts offices serving the selling activities will report the charges by appropriation/fund to the central accounts offices serving the purchasing activities. The central accounts offices serving the

purchasing activities shall use those reports of charges by appropriations/funds to monitor field activities to ensure that all charges have been recorded as disbursements or otherwise properly accounted for.

d. Interfund Billing System transactions will be reported separately from the regular accounts of the accounting and finance offices (see paragraph D.12.b.).

6. Preparation of Bills. Bills will be prepared at least monthly and may be prepared more frequently when the amounts involved are significant or more frequent billing is necessary to maintain an adequate cash balance. The last monthly bill will be forwarded by the fifth workday of the following month. Collections for all interfund billings processed under these procedures will be credited to the accounts of the billing activity in the month the bills are prepared.

7. Cancellation of Confirmed Requisitions. In those instances that a customer orders a special program requirement item (items required to support special programs or projects of a non repetitive nature) and subsequently cancels the order, the customer shall be billed for, as applicable (If billing is not accomplished within 90 days after cancellation of the requisition, the customer will be advised of potential or estimated charges):

a. The ordered special program requirement, at inventory standard prices, when a procurement order was processed which will result in receipt of materiel "in-excess" of the authorized acquisition objective through the end of the budget year.

b. Contract termination costs when a procurement order was processed which can be economically cancelled.

8. Billing for Direct Deliveries of Materiel from Contractors in Lieu of Shipments from Stock. When an inventory manager is out of stock; does not carry an item; or otherwise requests direct delivery of materiel from a vendor; the sale will be recorded and billed based on (a) notification of receipt of materiel by the customer, (b) notification of shipment by the vendor, or (c) payment to the vendor, whichever occurs first. However, for bulk POL sales (b) and (c) will not apply if the notification of receipt of materiel by the customer is received by the billing office within 15 days of the date of delivery.

9. Billing Adjustments/Allowances

a. In the interest of economy, an ordering activity or consignee will only request the billing office to grant adjustments/allowances under the criteria described below. Losses or gains will be absorbed by the ordering activity:

(1) Between DoD Activities. When the value is less than $100 per line item.

(2) Between DoD and Other Than DoD Activities. When the value is $25 or less per line item.

b. In accordance with the above criteria, billing offices will determine whether the request should be granted or denied and advise the ordering activity (customer). Billing offices will reply to customer requests as promptly as possible, but not later than 60 days after receipt of the request for adjustment. This reply is advisory and will not be recorded in the accounting records of the billed office.

c. Customers may forward a followup request if a reply has not been received within 60 days after initial request for adjustment/allowance.

d. Billing offices will grant credit for each approved adjustment and include these in the next billing along with other charges and credits.

e. Instructions to process billing adjustment requests and responses are in Chapter 7 of DoD Manual 4000.25-7M, "Military Standard Billing System (MILSBILLS)."

10. Accounting and Reporting for Transactions in the Suspense Account F3885, "Undistributed Intragovernmental Payments"

a. Suspense account F3885 has been established by the Treasury Department to provide billed offices with an account symbol for recording charges subject to adjustment (other than shipping adjustments) or considered to be improper pending correct classification of the transaction. Amounts recorded in that account will be included in disbursements reported to the Treasury Department on "Statement of Interfund Transactions," DD Form 1400, or, in lieu thereof, on an approved automated listing.

b. Transactions which clear the suspense account by recording the charges to the correct appropriation or fund will be processed outside disbursing channels. These transactions will also be reported to the Treasury Department on "Statement of Interfund Transactions" (see paragraph D.12. below).

c. Each DoD Component will ensure that only transactions which cannot be charged against correct appropriations/funds or correctly classified are recorded in suspense account F3885 and only after unmatched transactions are reviewed and every effort is taken to properly reconcile the charge. When prices, items, or quantities billed are different from the prices, items, or quantities requisitioned, the billed office will check with the ordering activity or consignee to see if substitute items or quantities have been supplied. (The supplying activity is responsible for advising of item substitutions or changes. See paragraph D.13.c. below.)

d. Each DoD Component will establish procedures governing the submission of full and timely reports to their central accounts office of transactions entered in the suspense account. These procedures will provide for maintenance of appropriate summary controls over these transactions. Balances in these accounts will be cleared as of September 30, each year. The offsetting charges will be applied to the purchasing appropriations/funds on an estimated basis. This action will be treated as a fiscal year-end adjustment which will be reversed on October 1 of the subsequent fiscal year.

11. <u>Maintenance of Billing Files</u>. DoD Component billing offices will maintain history files for 3 years after the billing month for sales within the Department of Defense, General Services Administration, and to other Government Agencies, and for billings supporting Foreign Military Sales.

12. <u>Treasury Reporting</u>

a. The billed office will summarize the reimbursements and disbursements processed under the Interfund Billing System, including transactions processed through the suspense accounts, and furnish them to the office which prepares the Statements of Transactions and Accountability reports.

b. Central accounts offices will submit to the Office of Secretary of Defense and the Treasury Department a monthly DD Form 1400, "Statement of Interfund Transactions", or approved automated listing, for appropriation financed materiel and Supply Management Business Area materiel to reflect credits to the selling appropriation or fund and/or debits to the buying appropriation or fund.

13. <u>Recording of Obligations by DoD Ordering Activities</u>

a. The requisitioning activity will enter the fund code (see DoD Manual 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures (MILSTRIP)" to be charged on the requisition.

b. The supplying activities will advise of item substitutions or changes in prices and quantities immediately after the requisition edit to determine supply availability provided proper "M&S" codes are stated in the requisition (DoD Manual 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures (MILSTRIP)", and forward a priced copy of the shipping document with the shipment.

c. The requisitioning activity is responsible for administrative control of funds for obligations incurred. To preclude overobligation of funds, the ordering activity will review price and quantity changes and substitution notices received and notify its billing office. Where change of prices, quantities or substitutions would result in an apparent/potential overobligation status, the ordering activity should advise the supply activity billing office of requisitioned items to be canceled or adjusted to avoid an overobligation.

d. In cases where the ordering activity has not received quantity change or substitution notices in sufficient time to cancel or adjust the quantity to be shipped, the ordering activity will record in its records those items or quantities for which funds are available. The balance will be recorded in the suspense account until resolved. Resolution may include disposition of materiel arranged by mutual agreement between the ordering activity and the supplying activity. Billing adjustments will be recorded as appropriate.

e. Errors in billings which result in incorrect charges to appropriations or funds causing apparent overobligations or over expenditures shall not be considered violations of the Anti-Deficiency Act. These errors will be corrected as soon as possible.

14. Billing, Collection and Accounting for GSA Sales Simplified Intra-Governmental Billings and Collection System (SIBAC)

a. Billing and collection for sales of General Services Administration (GSA) materiel from stock or direct delivery, including accessorial or administrative costs for overseas supply support to DoD Components will generally conform with policies contained in this section and supplemented by procedures in DoD Manual 4000.25-7-M, "Military Standard Billing System (MILSBILLS)." Procedures for preparation and distribution of the monthly Statement of Intra-Governmental Transaction by GSA are contained in Chapter 2, DoD Manual 4000.25-7-M. Sales of fuel (Washington, D.C. area), self-service stores, Federal specifications and consolidated purchases of automobiles, refrigerators, etc., will be billed and paid in accordance with Chapter 3, DoD Manual 4000.25-7-M.

b. GSA billings are rendered only after there is evidence of actual delivery of materiel or receipt of evidence of shipment.

c. A DoD Component ordering materiel by a Military Interdepartmental Purchase Request (MIPR), may request direct citation of its funds on contracts awarded by GSA for direct delivery by the contractor. In this instance, the contractor will bill the ordering DoD activity directly. As an alternative, when the ordering activity uses MIPRs, it may establish a separate MILSTRIP billing address in accordance with DoD Manual 4000.25-1-M. If one of these alternatives is not used, MIPRs will be consolidated with interfund billings.

CHAPTER 62

EXPENSES

A. GENERAL

An expense is an outlay, or other using of an asset, or the incurring of a liability (or a combination) as a result of an entity's efforts to perform its mission. Expenses are an application of budgetary resources made available to DoD Components. Goods and services ordered and received are recorded in the budgetary accounts as accrued expenditures and in the proprietary accounts as an expense, a capital item, or an inventory item. The proprietary accounts maintain financial control over the resources provided to the Department of Defense and assure full accountability once the budget execution process has been completed. Full financial control over all material, labor, supplies, etc., is maintained until consumed (expensed), sold or transferred to another Federal Agency in accordance with statutory authority. The treatment of expense items by Defense Business Operations Fund entities is different from the treatment accorded to expenses related to appropriation funded activities. For Defense Business Operations Fund entities, all expenses, unless specifically exempted by higher management, are costs that shall be recovered through billings to customers. General information relating to expenses can be found in Chapter 18, "Expenses," of Volume 4 of this regulation.

B. MILITARY PERSONNEL EXPENSE

1. General. Prior to the establishment of the Defense Business Operations Fund, military personnel were assigned to a DBOF activity as a "free" resource--that is, the cost of military personnel was not paid by the DBOF nor was that cost included in reimbursable billings of the activity to its customers. After establishment of the DBOF, that process was changed. Now, the cost of military personnel involves two separate processes. The first involves the payment to military personnel appropriations for the budgeted amount of military personnel for a business area--regardless of the actual number of military personnel assigned. The second involves the costing of military personnel to jobs or cost centers for work performed at the business area activity. This does not result in duplicate transactions but does (1) ensure that military personnel appropriations are not underfunded due to variances between budget and actual numbers of military personnel assigned to DBOF activities, (2) ensure that customers are charged--through the rate structure--only for the number of military personnel budgeted to be at a DBOF activity, while (3) providing a tool to identify the actual cost of work performed. Under current policies, the cost of military personnel, at civilian equivalent rates, is:

a. Charged by the applicable military personnel appropriation to the DBOF in an amount equal to the dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DBOF activity.

b. Reimbursed to the applicable military personnel appropriation by the DBOF in an amount equal to the dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DBOF activity.

c. Included by the performing DBOF activity in its stabilized billing rates to DBOF customers. The stabilized billing rate shall be developed based on the military personnel dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DBOF activity.

d. Included by the performing DBOF activity in its operating costs. DBOF activities shall disclose, on the Statement of Operations, an adjustment to net operating results to result in a $-0- variance between the amount paid to the applicable military personnel appropriation and the amount costed to customer orders. The adjustment makes readily visible the value of military personnel services received for which payment was not made or, conversely, the value of military personnel for which payment was made but services not received.

2. Civilian Equivalency Rate. The civilian equivalency rate of military personnel shall be included in the stabilized rate billed to all DBOF activity customers. Military personnel may be assigned to Fund activities for mobilization purposes, sea/shore rotation flexibility, or for career progression. In addition, military personnel are subject to duties and responsibilities as a result of their military position that do not apply to civilian employees and that may not be of direct benefit to the DBOF activity. These activities include short-term military training, guard duty, inspections, and other military related activities. To adjust for these differences, the military personnel appropriations are reimbursed at the civilian equivalency rate, and the balance of required funding is included as a direct appropriation to the affected Military Personnel appropriation. The civilian equivalency rate policy recognizes that if the military requirements did not exist, some positions now staffed by military personnel could be staffed with civilians at a lower cost to the business area.

3. Reimbursement to the Military Personnel Appropriations. DBOF activities shall, for payment of military personnel costs to military personnel appropriation accounts:

a. Provide Obligational Authority. Obligational authority shall be provided to the applicable military personnel appropriations equal to the total dollar amount for the number and grade of military personnel included in the approved budget of the DBOF activity. (As the budgeted amount is based on the civilian equivalency rate and the civilian equivalency rate for military personnel is less than the military composite pay rate, the military personnel appropriations is responsible for including any difference in its appropriation requests.) Obligational authority shall be provided to the applicable military personnel appropriation through issuance, by the DBOF, of a reimbursable order or other appropriate document as requested by the military personnel appropriation manager. The document providing the obligational authority shall cite the applicable DBOF treasury account symbol (97X4930.xx). The provision of obligational authority to the military personnel appropriation(s) shall result in the obligation of the applicable DBOF Treasury account in that same amount. The

obligational authority provided to the military personnel appropriations may, in accordance with an agreement between the military personnel appropriation manager and the DBOF activity manager, be provided either:

(1) At the beginning of each quarter of the execution fiscal year in an amount equal to one-fourth of the annual total budgeted dollar amount priced at civilian equivalent rates for the military workyears included in the approved budget of the DBOF activity, or

(2) At the beginning of the execution fiscal year in an amount equal to the full annual total budgeted dollar amount priced at civilian equivalent rates for the military workyears included in the approved budget of the DBOF activity.

b. Accounting entries for the recordation of the quarterly/annual obligation for military personnel are shown below.

Dr 4614 Uncommitted/Unobligated Allotments - Reimbursable Program - Current Period
Cr 4821 Undelivered Orders - Without Advance - Reimbursable Program

Entry to record obligation of the DBOF for the budgeted cost (at the civilian equivalency rate) for the budgeted dollar amount of military workyears. The obligation is to provide obligational authority to the applicable military personnel appropriation for subsequent payment of military personnel by the military personnel appropriations.

c. <u>Payment to the military personnel appropriations for the budgeted cost of assigned military personnel</u>. Payment shall be made by the DBOF to the applicable military personnel appropriation in the last month of each fiscal year quarter as reimbursement for military personnel. The quarterly payments shall equal, in total, the full amount of the obligational authority provided to the military personnel appropriations. The final quarterly deposit must be made on or before the last day (September 30) of the fiscal year. In the event of an unresolved dispute between the military personnel appropriation manager and a DBOF activity on the amount of the deposit, the additional amount requested by the military personnel appropriation manager shall be immediately provided. Upon resolution of the dispute, the DBOF activity shall be provided a refund, if any is due, of the applicable amount. Accounting entries for the recordation of the periodic deposit are shown below.

Dr 4821 Undelivered Orders - Without Advance - Reimbursable Program
Cr 4940 Accrued Expenditures - Paid - Reimbursable Program

Dr 1452 Prepaid Expenses-Military Personnel-DBOF
Cr 1012.1 Funds Disbursed - Operating Program

Entry to record payment of military payroll expense. (Payment shall be made to the applicable military personnel appropriation.)

4. <u>Military Personnel Costing Process</u>

a. <u>Military Personnel Cost Classification</u>. Military personnel may be classified as either direct, indirect, or general and administrative (G&A) depending upon the organizational placement of a military member within a function and the work performed by that member.

b. <u>Inclusion of Military Personnel Costs in Stabilized Billings to DBOF customers</u>. Stabilized rate billings shall, in addition to other operating and capital program factors, include a factor sufficient to reimburse the DBOF for military personnel costs at the budgeted civilian equivalency amount.

c. <u>Inclusion of Military Personnel Costs in DBOF Costs of Operations</u>. The cost, to the DBOF, of military personnel is the amount paid by the DBOF for the services of those personnel. The amount paid by the DBOF is fixed at the time of budget formulation. However, during budget execution the actual number, grade, or both of military personnel may differ from the estimated amount included within the budget. The actual amount of military personnel services, in terms of number and grade, shall be applied to work performed and, since it is based on actuals rather than estimates, is likely to result in a variance between the amount applied by the DBOF to customer work and the amount paid by it to military personnel appropriations. DBOF activities shall disclose, on the Statement of Operations, an adjustment to net operating results to result in a $-0- variance between the amount applied to work performed and the amount paid to the applicable military personnel appropriation. The adjustment makes readily visible the value of military personnel services received for which payment was not made or, conversely, the value of military personnel for which payment was made but services not received.

(1) <u>Recognizing Military Personnel as a Job Cost</u>. DBOF activities shall account for the actual amount of military personnel costs at the civilian equivalency rate for the number and grade of military personnel assigned to the DBOF activity. DBOF activities shall accumulate and allocate to customer orders, through a labor distribution system, the actual military personnel costs at the civilian equivalency rate. There are 2080 total hours available during a fiscal year for military personnel. A portion of those 2080 hours generally are not available due to leave or other absences. A cost allocation system should provide for such contingencies. Accounting entries for the recordation of military personnel costs are shown below.

Dr 6131 Purchased Services-Military Personnel Costs
  Cr 1452 Prepaid Expenses-Military Personnel-DBOF

Entry to record accrual of military employee cost incurred during the period.

(2) <u>Adjustment of Military Personnel Cost</u>. The applicable military personnel appropriations are paid an amount exactly equal to the total dollar amount for military personnel included in the approved budget of DBOF activities. The amount paid is recorded as an increase (debit) to account 1452, "Prepaid Expenses-Military Personnel-DBOF," and a decrease (credit) to "Funds Disbursed" (see paragraph 3.c. above). The actual amount of military personnel cost applied to work performed is recorded as an increase (debit) to account 6131, "Purchased Services - Military Personnel Costs," based on the

civilian equivalency rates for the actual number and grade of military personnel assigned and a decrease (credit) to account 1452. As a result, a variance may result between the amount paid to military personnel appropriations and the amount applied to work performed. That variance will result in a debit or credit amount in account 1452 at the end of the fiscal year. The variance in account 1452 could be the result of several factors, for example, differences in the numbers of actual versus budgeted military personnel; differences in the grade/rank of actual versus budgeted military personnel; or differences in the hours of actual versus budgeted workload. The dollar amount of variance between the amount paid to the military personnel appropriations and the amount recorded as a cost of DBOF operations is required to be shown as an adjustment to Net Operating Results on the DBOF Statement of Operations for rate development use. The amount of the adjustment is the amount necessary to result in a $-0- balance in Account 1452 at the end of each fiscal year. The purpose of the adjustment is to assure that future stabilized rates do not include those variances. If, for example, the amount of military personnel costs applied to work performed exceed the amount paid to military personnel appropriations, inclusion of that variance in stabilized rate development would unnecessarily increase DBOF customer rates. Therefore:

(a) If Military Personnel Costs Applied to Work Performed is Greater than the Amount Paid to Military Personnel Appropriations. Account 1452, "Prepaid Expenses - Military Personnel - DBOF," as it relates to military personnel payments, will contain a credit balance if the amount of military personnel costs applied to work performed is more than the amount paid or payable to military personnel appropriations. In those instances, the following adjusting accounting entry is required at fiscal year end only:

Dr 1452 Prepaid Expenses-Military Personnel - DBOF
    Cr 3311.1 Cumulative Results of Operations - DBOF

Entry to transfer the variance amount between actual versus budgeted military personnel cost when the actual amount is greater than the budgeted amount.

(b) If Military Personnel Costs Applied to Work Performed is Less than the Amount Paid to Military Personnel Appropriations. Account 1452, "Prepaid Expenses - Military Personnel - DBOF," as it relates to military personnel payments, will contain a debit balance if the amount recorded as military personnel expense is less than the amount paid or payable to military personnel appropriations. In those instances, the following adjusting accounting entry is required at fiscal year end only:

Dr 3311.1 Cumulative Results of Operations - DBOF
    Cr 1452 Prepaid Expenses-Military Personnel-DBOF

Entry to transfer the variance amount between actual versus budgeted military personnel cost when the actual amount is less than the budgeted amount.

(3) Reporting on Statement of Operations. The fiscal year end Statement of Operations as of September 30 shall show the Net Operating Results of the DBOF which includes all revenues, costs, gains, and losses. However, military personnel applied costs that vary from budgeted military personnel

costs are excluded from stabilized rate development. Therefore, the Statement of Operations shall show an adjustment of Net Operating Results to arrive at the amount that is to be used for stabilized rate development. The adjustment shall be equal to the adjustment amount recorded to Account 3311.1, "Cumulative Results of Operations-DBOF" [see subparagraphs 4.c.(2)(a) and (b) above]. When the military personnel expense is more than the amount paid to military personnel appropriations, the adjustment shall be shown as a positive amount. When the military personnel expense is less than the amount paid to military personnel appropriations, the adjustment shall be shown as a negative amount. The adjustment shall be shown on Part V of the DBOF Statement of Operations (AR 1307) as follows:

Net Operating Results
(+/-) Difference Military Personnel Reimbursement/Applied Costs
= Recoverable Operating Results

C. DEPRECIATION EXPENSE

1. Capitalization Criteria. The investment capitalization criteria for unit cost operations shall be aligned with the expense/investment funding threshold (currently $50,000) used by the Congress for appropriating DoD operating (expense) and Procurement (investment) appropriations. Activities shall allocate to work performed the depreciation expense of assets, including computer software, for those assets that have a purchase cost or, when applicable, an estimated fair market value equal to, or in excess of, the expense/investment funding threshold; and have an estimated useful life of 2 years or more.

2. Depreciation Expense versus Capital Surcharge. The purpose of asset depreciation is to record a decrease in value of property through wear, deterioration, or obsolescence. Depreciation is therefore the recognition of an expense in the current period for an outlay that occurred in a previous period. Thus, depreciation expense recovery (through inclusion in stabilized rates or prices) results in a cash accumulation that can be used to acquire assets to replace those that are wearing out. Recovery of depreciation expense is the primary financing source for the DBOF Capital Investment Program. However, it is possible that at times depreciation expense recovery may not, by itself, be sufficient to finance the desired Capital Investment Program. In those instances and if approved by the Office of the Under Secretary of Defense (Comptroller), an additional element may be added to the stabilized rates and prices to finance the incremental difference. That additional element is termed a "Capital Surcharge." It is important to note that "Capital Surcharge" is not an expense and is not displayed as such on the Statement of Operations. A "Capital Surcharge" is one of many elements that may be used in computation of the stabilized billing rate or price. The stabilized billing rate or price, when billed, is recorded as revenue. Since there is no counteracting expense for a capital surcharge, it should result in a positive Net Operating Result. To avoid the return of the capital surcharge through lower future stabilized rates/prices, Part V of the DBOF Statement of Operations (AR 1307) has been designed to disclose capital surcharges to result in "Recoverable Operating Results." As a simplified illustration, assume that a stabilized rate consisted of only two elements -- (1) depreciation expense recovery of $8 per hour and (2) capital surcharge of $2 per hour. 1000 hours

were billed. Actual depreciation expense was $8000. [Note: Actual depreciation expense will seldom, if ever, be exactly equal to depreciation expense recovery and its recovery is based on an estimate.] A simplified Statement of Operations would then show:

Revenue	$10,000
Expenses	
Depreciation	$ 8,000
Net Operating Results	$ 2,000
(-) Capital Asset Surcharge	$ 2,000
Recoverable Operating Results	$ -0-

3. Residual Value of Depreciable Assets. Residual value is the estimated salvage value of an asset at the end of its useful life. A capital asset in use shall not be depreciated below this value. The residual value of DoD capital assets is deemed to be 10 percent of the initial capitalized amount of the fixed asset unless the entity controlling the asset can determine that a different (greater or less) residual value is more appropriate. The residual value, regardless of the amount, shall be used in the depreciation calculation. Once established, the estimated residual value should not increase over the life of the asset, even if the fair market value of the asset becomes greater than its original acquisition cost.

4. Calculation of Depreciation Expense

a. Depreciation shall be calculated and accumulated using the straight-line method based on the original acquisition cost or reasonable estimate thereof less residual value. That is, the capitalization amount less estimated residual value shall be divided equally among accounting periods during the useful life of an asset. As stated in Chapter 58, paragraph D.7.g., Fund activities may request an alternative methodology for computing depreciation expense. Requests for an alternative methodology for computing depreciation expenses should be submitted for a determination of approval, through the appropriate DoD Component channels, to the OUSD(C/FM), Directorate for Accounting Policy. Acquisition cost shall include the purchase price plus transportation, design, installation, and other costs necessary to put the asset in the place and in the form in which it will be used.

b. Depreciation shall commence in the month following (a) the date of receipt shown on the asset receiving document or (b) the date the asset is installed and ready for use (regardless of whether it is actually used). Depreciation shall be recorded in equal amounts each month thereafter until the asset is fully depreciated, disposed of, or otherwise transferred. If an asset remains in use longer than its estimated useful life, it shall be retained on the accounting record, at its residual value (which can be $-0-) until its final disposition.

c. If multiple cost centers use the same computer system, building or equipment, the depreciation or amortization shall be prorated based upon levels of usage or benefit received for each cost center. If, under unusual conditions, a computer system, building, facility, or equipment does not have a use identifiable to a direct or indirect cost center, the depreciation cost shall be charged to a general and administrative (G&A) expense account.

d. Assets that have been removed from use, regardless of the period and for whatever reason, shall continue to be depreciated during that period.

e. Land is not subject to depreciation. However, when land and building(s) are purchased together, the depreciable base is total cost less the cost of the land and the residual value of the building(s).

5. <u>Cost Classification</u>. Depreciation expense is classified as either indirect or general and administrative (G&A) depending upon the organizational location of the asset and the use to which it is put. However, it may be charged as a direct expense only if depreciation costs of all like assets used for similar purposes are charged in the same manner.

6. <u>Depreciable Assets and Useful Life</u>. Depreciable assets shall be recorded in one of the following specified asset categories and shall be assigned a useful life not to exceed that specified below for the applicable category. As stated in Chapter 58, paragraph D.7.g., Fund activities may request an alternative estimate of useful life. Requests for an alternative depreciation schedule should be submitted for a determination of approval, through the appropriate DoD Component channels, to the OUSD(C/FM), Directorate for Accounting Policy. If an asset remains in use longer than its estimated useful life, it shall be retained on the accounting record, at its residual value until its final disposition.

Asset <u>Category</u>	<u>Useful Life</u>
Buildings	20 Years

Includes structures to house or shelter facilities, equipment, or to provide working space for an installation's operations. The depreciation period shall not exceed the expected useful life of the asset. (Note: Historical buildings, statues, etc. are not depreciated.)

Structures and Facilities	20 Years

Includes special purpose assets such as automated warehouse retrieval systems, fixed cranes, etc. Structures and facilities may be housed in a building or may be independent. If housed in a building, they shall be accounted for separately from the building even though they may not be operated independently from the building. However, they may not be depreciated over a period exceeding the useful life of the building in which they are housed.

Leasehold Improvements	20 Years

Includes changes or modifications to a leased building, structure, or facility in a way that substantially extends its useful life, increases its potential rate of output, increases its operating efficiency, or decreases its operating cost. These factors are distinguished from repairs or maintenance, which tend to keep an asset in or near its original efficiency without materially adding to its life, productivity, or efficiency. The depreciation period shall not exceed the lesser of expected useful life of the asset or the lease period.

Assets Under Capital Lease	See Applicable Asset Category

A capital lease substantially transfers all the benefits and risks inherent in the ownership of property to the lessee, who accounts for the lease as an acquisition of an asset and the incurrence of a liability. Assets under a capital lease should be depreciated using the same guidelines applied to other capital investments.

Equipment (Non Combat)

Industrial Plant Equipment	10 Years
Office Furnishings and Equipment	10 Years
ADP Hardware/Software	5 Years

The depreciation period of equipment shall not exceed the expected useful life of the asset.

D. DEPRECIATION EXPENSE OF DBOF ASSETS AND FACILITIES USED BY DBOF ACTIVITIES

1. DBOF Acquired Assets. DBOF assets are those assets acquired through expenditure of resources available to the DBOF or, if not so acquired, are the responsibility of the DBOF to replace or otherwise use funds generated through depreciation expense recovery in operations or acquisition of other capital assets. As a general rule, the DBOF is not authorized to acquire, through use of its resources, real property. The accounting entries to recognize depreciation expense of DBOF assets are:

Dr 6125 Depreciation of Equipment
  Cr 1759 Accumulated Depreciation on Equipment
  Cr 1769 Accumulated Depreciation on Military Equipment
  Cr 1819 Accumulated Depreciation on Assets Under Capital Lease
  Cr 1839 Accumulated Amortization on Automated Data Processing Software

2. Facilities Used By DBOF Activities. As a general rule, the DBOF is not authorized to acquire, through use of its resources, real property. These assets are not acquired through expenditure of resources available to the DBOF and are not the responsibility of the DBOF to replace or otherwise use funds generated through depreciation expense recovery in DBOF operations to acquire real property or other capital assets. Chapter 58, of this Volume provides guidance on accounting for real property assets by DBOF activities. The accounting entries to recognize depreciation expense of real property assets are:

Dr 6126 Depreciation of Real Property
  Cr 1739 Accumulated Depreciation on Buildings
  Cr 1749 Accumulated Depreciation on Other Structures and Facilities

Simultaneous with the above entry, an accounting entry shall be made to recognize the benefit received (equal to the depreciation expense recognized) from the use of real property assets. That accounting entry is:

Dr 3211.2 Assets Capitalized
Cr 5790 Invested Capital Used

The applicable depreciation expense account (e.g., Account 6126, "Depreciation of Real Property,") and Account 5790, "Invested Capital Used," shall both the closed to Account 3321, "Net Results of Operations - DBOF." Those amounts shall be equal, but opposite. The closing entries are:

Dr 3321 Net Results of Operations - DBOF
Cr 6126 Depreciation of Real Property

and

Dr 5700 Appropriated Capital Used
Cr 3321 Net Results of Operations - DBOF

The result of the above entries is to reduce the value of "Assets Capitalized," (Account 3211.2) by the amount of the depreciation expense recognized on real property assets that period. The net effect of the entries to "Net Results of Operations - DBOF," (Account 3321) is zero as the closing entries offset each other.

3. Addendum 1 to chapter 58, "Capital Assets," of this Volume provides an explanation of general ledger account 5790, "Invested Capital Used."

E. MANAGEMENT IMPROVEMENT INITIATIVES

1. Prior to Fiscal Year 1994, management improvement initiatives meeting specified criteria were capitalized and the capitalized amount was amortized over the benefitting periods. Management improvement initiatives were defined as those efforts that:

a. Met the DoD capitalization criteria;

b. Were expected to have a long-lived benefit to the management and/or administration of the activity but that had only incidental benefit to direct mission work performed by the activity;

c. Were independently established and authorized by Defense Business Operations Fund management as an individual activity project or a joint project among multiple Defense Business Operations Fund activities; and

d. Were necessary for reasonable operation and management of the Defense Business Operations Fund activity(ies). Requirements for preliminary planning, exploration, or research before final approval of a project shall be financed from Defense Business Operations Fund operating resources.

2. Commencing in Fiscal Year 1994, in accordance with congressional guidance, management improvement initiatives shall be expensed unless specifically directed otherwise by the Under Secretary of Defense (Comptroller).

F. REAL PROPERTY MAINTENANCE AND REPAIR

1. Previous Policy. From the commencement of the Defense Business Operations Fund in FY 1992, each Defense Business Operations activity included in its annual budget an amount sufficient to finance major real property maintenance and repair (MRPM&R) projects costing more than $15,000. The policy permitted two possibilities--the amount budgeted could be used to (1) replace funds used for major maintenance and repair costs previously incurred or (2) finance major maintenance and repair costs that had not yet been incurred. To avoid significant fluctuations in recorded MRPM&R expenses and, as a result, fluctuations in annual budgets, the amount specified in the budget was allocated on a monthly basis over a 10-year period. The following subparagraphs to this paragraph explain the accounting that was necessary under the previous policy. The following subparagraphs are necessary to fully explain the conversion of the previous policy to the current policy to expense real property maintenance and repair.

a. Prepayment of Expenses. In those cases in which a MRPM&R project was completed in the current period and for which an accrual had not created a reserve, the amount of the outlay (disbursement) was recorded as a prepayment. The prepayment was recognized on a monthly basis over a 10-year period. The accounting entries were:

Dr 1450 Prepayments
Cr 1012 Funds Disbursed

Entry to record a current period disbursement for MRPM&R for which the expense was to be recognized in subsequent periods.

Dr 6120 Other Services
Cr 1450 Prepayments

Entry to recognize monthly current period expense of MRPM&R previously performed and paid.

b. Creation of Reserve Funding. In those cases in which a MRPM&R project was anticipated, a reserve to finance its costs was permitted to be created. The expense accruals created the funding reserve necessary to finance performance of major real property maintenance and repair. Payment for performance reduced the reserve. The accounting entries were:

Dr 6120 Other Services
Cr 3311.2 Reserve-Major Real Property Maintenance-DBOF

Monthly entry to accrue 1/120 (10 years x 12 months = 120) of the expected expense for major real property maintenance and repair for which the actual outlay will be made in a future accounting period.

An outlay for the major real property maintenance and repair resulted in the following accounting entry:

Dr 3311.2 Reserve-Major Real Property Maintenance-DBOF
Cr 1012 Funds Disbursed

Entry to record a current period disbursement for major real property maintenance and repair for which the expense has been previously accrued.

c. Deficiencies of Previous Policy. Although the policy was designed to provide a stable funding source for MRPM&R without creating wide fluctuations in annual budgets, some implementation and accounting problems were encountered. A primary problem was that the policy was not consistent with generally accepted accounting principles and departed from other policies specifically designed to associate costs with the accounting period in which they were incurred.

2. Current Policy. Commencing in FY 1995, major real property maintenance and repair shall be expensed in the period in which the maintenance and repair occurs. Major real property maintenance and repair is defined as recurring maintenance costs and repair projects, real property renovation costs, planning and design costs associated with repair and renovation projects, for the maintnance and repair of buildings, structures, warehouses, and other real property owned or operated by DBOF business activities. Costs that will be expensed from operating budgets include real property maintenance, major maintenance and repair, and repair projects in any amount undertaken to preserve the physical structure or its support systems. Major real property maintenance and repair requirements are normally budgeted and executed as a level of effort necessary to support the maintenance and repair of business area real property.

3. Conversion of Previous Policy to Current Policy. The previous policy was not in accord with generally accepted accounting principles. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error and is treated as a prior period adjustment. The following accounting entries eliminate the accounting affects of the previous MRPM&R policy:

a. Prepayment of Maintenance and Repair - Correction of Error

Dr 7400 Prior Period Adjustments
Cr 1450 Prepayments

Entry to correct, as a prior period adjustment, an error in an accounting practice and thereby eliminate the prepayment balance of previously paid amounts for major real property and maintenance that have not yet been expensed.

b. <u>Reserve for Maintenance and Repair - Correction of Error</u>

Dr 3311.2 Reserve-Major Real Property Maintenance-DBOF
Cr 7400 Prior Period Adjustments

Entry to correct, as a prior period adjustment, an error in an accounting practice and thereby eliminate the balance of previously accumulated capital reserves for major real property and maintenance.

c. <u>Closing of Prior Period Adjustments Account</u>

Dr 7400 Prior Period Adjustments
Cr 3311 Cumulative Results of Operations-DBOF

Entry to close, at fiscal year end, a credit balance in the prior period adjustment account to accumulated operating results.

Dr 3311 Cumulative Results of Operations-DBOF
Cr 7400 Prior Period Adjustments

Entry to close, at fiscal year end, a debit balance in the prior period adjustment account to accumulated operating results.

G. MANAGEMENT HEADQUARTERS COSTS

1. <u>General</u>. Each Defense Business Operations Fund activity, or group of activities is under the management control of a designated DoD Component. The DBOF headquarters management is related to specific DBOF activity operations, and is separate from the general policy direction for the Department or a DoD Component. Management headquarters to be funded from the DBOF must be identified in the supplemental provisions of the DBOF Charter (Management Command) for each applicable business area.

2. <u>Identification and Payment for Headquarters Costs</u>. Costs for discrete DBOF management headquarters organizations, and parts of organizations that perform DBOF management headquarters functions, should be directly funded by DBOF if feasible or, if not feasible, reimbursed by DBOF on a pro rata basis. Significant costs for common support (e.g., counsel and personnel) at organizations partially funded or reimbursed by DBOF (i.e., that have direct DBOF management responsibilities) also should be allocated, if feasible. Only significant costs should be reimbursed. Significant headquarters costs are costs that exceed 1 percent of the total business area costs, or $1 million, whichever is greater.

H. OTHER EXPENSES

1. <u>Centrally Controlled Assets</u>. Defense Business Operations Fund activities that finance and centrally control a Defense Business Operations Fund management system for the benefit of other Defense Business Operations Fund users of that management system shall assign all allocable expenses to the benefiting users. The benefiting users shall reimburse the financing activity for their allocated share of expenses.

2. Unutilized and Underutilized Plant and Equipment. Costs of maintaining unutilized plant and equipment shall be determined and, when significant, shall be reimbursed by appropriated funds provided by the DoD Component having management responsibility for the DBOF activity. Costs applicable to unutilized plant and equipment such as depreciation, or maintenance shall not be charged to customers of the DBOF activity. However, costs applicable to underutilized plant and equipment shall be included in stabilized rates and charged to customers of the DBOF activity. Additional information is contained in section O., chapter 63 of this volume.

3. Disposal/Demolition of Assets. The costs incurred in removing, packing, crating, handling, and shipping of fixed assets for disposal or demolition of buildings and structures shall be accumulated within a separate job order. The costs incurred shall be charged to the appropriate fixed asset account. At the time the asset is made available to the Defense Reutilization and Marketing Service for disposal, the accumulated depreciation shall be closed into the applicable fixed asset account balance. The resulting net balance in the fixed asset account shall be recorded in general ledger account 7210, "Losses on Disposition of Assets." Proceeds, if any, from the sale of the asset by the Reutilization and Marketing facility shall be recorded in general ledger account 7110, "Gains on Disposition of Assets."

CHAPTER 63

COST ACCOUNTING REQUIREMENTS FOR DEPOT MAINTENANCE

A. GENERAL

1. Purpose

a. The purpose of this chapter is to prescribe cost accounting requirements for DoD depot maintenance performed by Defense Business Operations Fund activities.

b. The objective of these depot maintenance cost accounting requirements is to uniformly record, accumulate, and report the cost of performing depot maintenance functions.

c. Cost reporting requirements and procedures are contained in Chapter 14, "Depot Maintenance Reporting," of Volume 6, "Reporting Policy and Procedures," of this Regulation.

2. Overview

a. The formal cost accounting requirements in this chapter are required for all Defense Business Operations Fund activities that perform depot maintenance work.

b. The requirements of this chapter apply to depot maintenance performed on all material, whether owned by the Department of Defense, other Federal agencies, State or local governments, foreign governments or private parties.

c. The uniform recordation, accumulation, and reporting of costs incurred in depot maintenance operations is required to assist management in the: measurement of productivity and efficiency; the development and use of performance measurement and cost standards; and highlight areas in need of increased management emphasis. Also, the data will assist in the identification of total maintenance capability, duplication of capacity, and areas of interservice support of maintenance workload.

d. Specifically, management should have depot maintenance information available from the cost accounting and reporting module to assist in the:

(1) Comparison of historical unit cost trends with replacement cost trends.

(2) Oversight in the utilization of depot maintenance resources.

(3) Evaluation of budgets for depot maintenance work programs.

(4) Comparison of cost trends among organic depots or between organic and contract sources.

(5) Managerial direction and guidance for depot maintenance programs.

(6) Evaluation of depot maintenance activities for efficient use of resources.

(7) Estimation of depot maintenance requirements.

(8) Monitoring of DoD Component compliance with various Congressionally mandated reporting requirements, including Contract/Organic shares.

(9) Examination of the behavior of cost drivers over time.

B. INTEGRATION WITHIN GENERAL ACCOUNTING SYSTEM

1. The depot maintenance cost accounting module should be subsidiary to, and integrated within, the general accounting system defined in the other chapters of this Regulation. That cost module should be integrated with the depot payroll, fund control, and operating materials and supplies modules.

2. The principal general ledger accounts for depot maintenance activities are Operating Materials and Supplies, Work In Process-In-House, and Cost of Goods Sold. Typical general ledger account entries are:

a.	Dr 1581 Work In Process-In-House	$ 5,000	
	Cr 2211 Accrued Payroll-Civilian (Direct)		$ 5,000

To record direct labor cost incurred on job orders.

b.	Dr 1581 Work In Process-In-House	$10,000	
	Cr 1511 Operating Materials and Supplies Held for Use (Direct)		$10,000

To record direct material and supplies on job orders.

c.	Dr 1581 Work In Process-In-House	$ 4,500	
	Cr 6600 Applied Overhead		$ 4,500

To record overhead applied to job orders.

d.	Dr 6600 Applied Overhead	$ 4,000	
	Cr 1511 Operating Materials and Supplies Held for Use (Indirect)		$ 1,000
	Cr 2211 Accrued Payroll-Civilian (Indirect)	$ 3,000	

To record the cost of labor and materials incurred in overhead applications where overhead is applied at predetermined rates. (Note that indirect costs are closed to account 6600 but that direct costs and account 6600 are closed directly to Work In Process.)

e.	Dr 6500 Cost of Goods Sold	$19,500	
	Cr 1581 Work In Process-In-House		$19,500

To record the relief of work in process and transfer of completed items to customers.

f. Dr 6600 Applied Overhead $ 500
Cr 6500 Cost of Goods Sold $ 500

To adjust overapplied overhead.

C. SCOPE OF DEPOT MAINTENANCE

Depot maintenance is material maintenance requiring major overhaul or a complete rebuilding of parts, assemblies, subassemblies, and end items, including the manufacture of parts, modifications, upgrades, testing and reclamation as required. Depot maintenance serves to support lower categories of maintenance by providing technical assistance and performing that maintenance beyond their responsibility. Depot maintenance provides stocks of serviceable equipment by using more extensive facilities for repair than are available in lower maintenance activities. Depot maintenance includes all aspects of software maintenance.

D. MODIFICATIONS AND UPGRADES

As defined in DoD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures," a "modification" is a change to a system (whether for safety, to correct a deficiency, or to improve program performance) that is still being produced. An "upgrade" is a change to a system (whether for safety, to correct a deficiency, or to improve program performance) to a system that is out of production. A "major modification" to a program is defined as a modification that is and of itself meets the criteria of Acquisition Category I or II or is designated as such by the milestone decision authority. Major modifications require a Milestone IV decision unless the decision to modify results from one of the alternatives considered as part of the Milestone I decision process. Upgrades are part of the milestone 0 decision process. DoD Instruction 5000.2 defines and explains the Acquisition Category Programs and the various acquisition milestones and phases.

E. FUNDING ENVIRONMENT

Depot maintenance may be performed in Government-Owned, Government-Operated (GOGO) activities, Government-Owned, Contractor-Operated (GOCO) activities, or contracted out. The primary funding source for depot maintenance operations is DoD operations and maintenance appropriations made available to customers of depot maintenance. Certain specific programs such as weapon system upgrades and similar modernization and/or modification programs may be funded with centrally managed procurement appropriations. An order for maintenance work may be placed with a depot maintenance activity by any appropriation or fund legally authorized to do so, as well as by customers outside of the Department of Defense such as the Coast Guard and Foreign Military Sales (FMS).

F. ESTABLISHING THE COST ACCOUNTING MODULE FOR DEPOT MAINTENANCE ACTIVITIES

1. The cost accounting module described in this chapter shall be established for all, but not limited to, Defense Business Operations Fund depot maintenance activities.

2. The following guidance further explains the use of the DoD general ledger chart of accounts by a depot maintenance activity:

a. Account 1510, "Operating Materials and Supplies," is the control account and shall be used to record all operating materials and supplies regardless of the method acquired; for example, acquisition, donation, or transfer without reimbursement. The account shall not be charged to the work in process (WIP) account until supplies are issued for use. Material issues shall then be charged to appropriate job orders or cost centers. Unneeded material shall be returned to the account when a determination is made that the material is available for other uses.

b. Operating materials and supplies shall be valued at acquisition cost.

c. Records of operating materials and supplies shall be verified by, and adjusted to, physical counts. Any adjustments needed to reconcile the physical count with the recorded (book) value of operating materials and supplies on hand shall be charged to the appropriate cost center or to a miscellaneous gain or loss account as described in subsection N.8, below.

d. Account 1581, "Work in Process - In House," is the control account for all unbilled job orders. The amount of work in process consists of all costs applied to unbilled job orders including direct labor, direct materials, and applied indirect overhead and general and administrative (G&A) expenses. The balance in this account shall be reconciled to the total charges on unbilled job orders as of the end of each quarter. In addition, the validity and reasonableness of the charges recorded on the unbilled job orders shall be verified on a random sample basis at least annually. This validation shall be performed by personnel not assigned to the accounting or maintenance function. For example, personnel from the DoD Component Audit Agency or a local internal review staff may be assigned to perform this function. Any adjustments required as a result of the verification shall be recorded as a gain or loss of the applicable cost center to, for gains, Account 7193, "Other Miscellaneous Gains," or, for losses, Account 7293, "Other Miscellaneous Losses."

e. Account 1451, "Prepaid Expenses," shall be used to record the payment for expenses that properly apply to future accounting periods. This account shall not be used solely to level out significant expenses but must, in fact, represent an equitable distribution to the appropriate time period commensurate with the benefits that will accrue to that future period from the current payment.

f. Account 2994, "Progress Billings to Others," shall be used to record the liability resulting from progress payments billed to federal agencies for goods or services that have been ordered by those activities, but that have not yet been completed or delivered by the depot maintenance activity. Progress billings to non-federal agencies should not be necessary as

an advance is ordinarily required prior to start of work. The progress billing to federal agencies is recorded as a liability since it represents something -- goods and/or service -- that is owed to the entity that was billed. In no case shall a progress billing be processed that would result in the total progress payment against an order exceeding the amount of the order. A progress billing to others is recorded as follows:

Dr 1311 Accounts Receivable-Government-Current
Cr 2994 Progress Billings to Others

To record a progress billing to others for costs incurred by the performing activity on goods and/or services requested by the entity that is billed.

g. Accrued expenses that are significant (material) in relation to the recording of costs for the depot maintenance activity shall be recorded in the appropriate general ledger expense account, budgetary account (4900, "Expended Appropriations"), and the applicable liability account during the accounting period that the benefit was received rather than at the time of the payment for the expense. For example, accruals shall be recorded for accrued salaries, annual and sick leave, employee benefits, estimates for utilities, major real property maintenance and repair, and other significant services received and not yet paid.

h. Occasions may arise when, due to missing or erroneous data, costs incurred cannot be identified for charge to the appropriate job order. Such costs shall be temporarily recorded in the applicable expense account under suspense control until the correct data is available to make the proper distribution to the correct job order. Any unadjusted amount at the end of a fiscal year shall be charged to the applicable cost center to Account 7293, "Other Miscellaneous Losses."

G. ESTABLISHING JOB ORDERS

1. Job orders shall be established by the performing activity in accordance with the following criteria:

2. Units subject to "preshop analysis" or "examination and evaluation."

a. As a minimum, a job order is required for each unit when the estimated unit maintenance cost is in excess of $150,000.

b. As a minimum, a job order is required for each month's induction of units having the same identification number (Type Model Series (TMS) or National Stock Number (NSN)) and the estimated unit maintenance cost is from $25,000 to $150,000 per unit.

c. As a minimum, a job order is required for each quarter's induction of units having the same identification number (Type Model Series (TMS) or National Stock Number (NSN)) and the estimated unit maintenance cost is less than $25,000 per unit.

3. Units not subject to "preshop analysis" or "examination and evaluation."

a. As a minimum, a job order is required for each month's induction of units having the same identification number (Type Model Series (TMS) or National Stock Number (NSN)) and the estimated unit maintenance cost is $25,000 or more.

b. As a minimum, a job order is required for each quarter's induction of units having the same identification number (Type Model Series (TMS) or National Stock Number (NSN)) and the estimated unit maintenance cost is less than $25,000 and the planned work on all the items scheduled for induction during the quarter is $500,000 or more.

c. As a minimum, a job order is required for each quarter's induction of homogeneous grouping of items by stock classification, subclassification, repair category, or other appropriate criteria and the estimated unit maintenance cost is less than $25,000 and the planned work on any one identification number (Type Model Series (TMS) or National Stock Number (NSN)) is less than $500,000. The dollar limit for the quarterly group job order is $1,000,000.

H. JOB ORDER REQUIREMENTS

1. Under no circumstances shall direct material, labor, or other direct costs be charged to job orders based upon planned, programmed, or reserved amounts. Costs may be charged to job orders based upon standard costs when those costs are properly adjusted for variances to arrive at actual cost. Costs, including standard costs, shall be recorded based upon accrual concepts. Costs shall be assigned to individual job orders at the time the job order receives a benefit from the incurrence of an expenditure. The benefit may occur at any time but usually occurs subsequent to the time the obligation is incurred and before the disbursement occurs.

2. Job order opening and closing requirements.

a. A job order shall be opened when a new job order is required under section G., above.

b. A job order shall be closed as soon as all direct, indirect, general and administrative costs are determined and assigned to the job order. Normally, all such costs should be determined and posted to the job order within 30 days of the completion of all direct labor chargeable to the job order. The job order shall be closed with the use of predetermined overhead rates, when authorized. Such overhead rates shall be consistently applied to all job orders. At the end of the fiscal year, any under and/or over absorbed overhead (variance) shall be closed to account 6500, "Cost of Goods Sold."

3. Costs associated with cancellation or reduction of partially completed maintenance work shall be identified and reported separately from the costs of normally completed work. Specific instructions to account for and report these costs are described in subsection O.20., below, of this chapter.

4. Customer orders, either project orders or Economy Act orders, from the activity responsible for the financing appropriation, are required to support each job order. A customer order, however, may be issued to cover multiple job orders when agreed to in writing by the customer and the depot maintenance activity.

I. PROCESS COST CENTERS FOR PROCESSING ACTIVITIES

1. A depot maintenance activity may perform certain unique operations that lend themselves to process cost center procedures. For example, direct labor and material costs incurred in plating and painting operations may be more readily accumulated in a process cost pool and allocated on at least a monthly basis to the total number of units produced during the allocation period and the related costs assigned to each applicable job order.

2. The allocation shall be to the job orders for the units processed through the cost center during the allocation period. The basis for the allocation of costs by the process cost center to the job orders shall be the number of equivalent units processed on the job orders completed by the center during the allocation period plus the number of job orders in process at the end of the allocation period.

3. If such an approach is adopted, it should be done so deliberately after consideration of alternative methods. The method used to accumulate and allocate the costs for such operations should be consistently applied from accounting period to accounting period to ensure consistency in the assignment of costs.

J. USE OF WORK MEASUREMENT STANDARDS

1. Work measurement standards shall be established for labor, material, and indirect costs. Using these standards, cost estimates shall be developed for each job order. Incurred costs shall be compared against estimated costs to determine if corrective actions are required to control significant variances.

2. The work measurement standards shall be based on generally accepted industrial engineering techniques where high-value, high-volume work is involved. The work measurement standards may be established by in-house or other DoD personnel or they may be established by original equipment manufacturer's (OEM) specifications of maintenance tasks and frequencies (product reliability engineered standards). A work measurement standard, once established, should be continuously reviewed to verify the accuracy of the standard in light of advanced processing equipment, higher level of skills, etc. For low-value, low-volume work, the work measurement standards may involve less sophisticated engineering techniques but work measurement standards or estimated resources required shall be developed for all work accepted.

3. Work measurement standards shall be established and reevaluated to comply with the applicable Cost Accounting Standards Board (CASB) standards, and as required by DoD Instruction 5010.34, "Productivity Enhancement, Measurement, and Evaluation - Operating Guidelines and Reporting

Instructions," and DoD Instruction 5010.37, "Efficiency Review, Position Management, and Resources Requirements Determination."

K. LABOR COSTS

1. All civilian labor hours worked in a cost center shall be recorded on a job order as either a direct cost or as an indirect cost. Civilian labor hours shall be charged at the current payroll rate to include DoD paid personnel benefits.

2. Actual civilian payroll hourly rates shall be used as a basis to record labor costs. Average labor rates may only be used to record labor costs for cost centers when the range of actual hourly pay rates within that center is limited and significant distortions of recorded costs would not result from their use. Stabilized rates approved for billing purposes shall not be used as a basis to record labor or other costs incurred.

3. A labor distribution system shall be used to charge all direct labor hours and costs to applicable job orders. Differences between labor hours recorded for payroll purposes, payroll costs incurred and the labor hours and costs distributed to job orders and indirect cost centers though the labor distribution system shall be reconciled and corrected each pay period. For discrepancies that cannot be reconciled between job order records and payroll records without a major expenditure of resources, the job order records shall be corrected to equal the payroll records. Differences due to the use of average cost center labor rates shall be charged to general and administrative expenses.

4. All military hours worked shall be recorded as either a direct cost on a job order or as an indirect cost of a cost center. Military labor hours shall be charged to the job order at the current civilian equivalent rate applicable to the rank and military service of each military member.

5. All military labor performed by a "ship's force" (Navy crew members) loaned to and working under the supervision or direction of the depot maintenance activity when a ship is undergoing depot maintenance in a shipyard shall be considered an unfunded depot maintenance cost and shall not be billed to, or reimbursed by, the customer. When a ship's force is not working under the supervision or direction of the depot maintenance activity, any maintenance work it performs shall not be considered depot maintenance.

6. A time keeping system shall be maintained to provide data necessary to distribute both military and civilian labor to applicable job orders or cost centers. A timekeeping system should provide the following information:

a. Source of Hours Available:

(1) Normal duty hours available by cost center.

(2) Premium time, overtime, and holiday time by cost center.

(3) Loaned labor hours by gaining and losing cost center.

b. Application of Hours Available:

(1) Direct hours worked by cost center on each job order.

(2) Indirect hours worked by cost center.

(3) Nonproductive (annual, sick, etc.) hours by cost center.

7. The allocation of hours worked to benefiting job orders may be based on industrially engineered earned hour - actual hour efficiency of a cost center if the employees in the cost center are of a homogeneous type and the allocation of labor hours are properly adjusted for variances to arrive at actual hours worked. Such a method of allocation is not appropriate for a cost center with a diverse workforce or different types of workload.

8. Supervisors are responsible for the validity of timekeeping records. Employees are responsible for certifying that the time charged to job orders is correct. The source documents used to record the hours worked by each employee on each job order shall be reconciled to the total payroll hours.

9. Direct labor is work that can be identified, without undue cost or difficulty, to a single, specific job order. Direct labor generally includes the hands-on maintenance, repair, overhaul, test, and related direct production effort that follow the established sequence and content of work necessary to accomplish the billable job. Direct labor does not include the support work identified as either indirect or general and administrative in nature.

10. First line supervision is that level immediately over non-supervisory workers. First line supervisors and above are an official supervisory position and, when acting in a supervisory capacity, their labor costs shall always be charged as an indirect cost of the cost center supervised. "Crew chiefs," "snappers," "team leaders," and other subordinate job leaders are not first line supervisors. First line supervisors may be borrowed and used as direct labor. When this occurs, the time of the first line supervisor shall be classified as direct labor and charged as such to the applicable job order rather than as an indirect cost.

11. Special emphasis shall be placed on accurately recording the use of loaned labor. Loaned labor occurs when an employee is temporarily transferred (loaned) from one cost center to another within a depot maintenance activity. When an employee is loaned, the labor hours of the employee shall be recorded by the gaining cost center. Care must be exercised to assure that the costs of loaned employees are not charged by both, or by neither, the loaning and gaining cost centers. First line supervisors at both the loaning and gaining cost centers may be tasked to validate that such costs are accurately recorded.

12. If employees are temporarily assigned to a depot maintenance activity from an organizational entity other than the depot maintenance activity and the depot maintenance activity does not pay the individual directly nor make payment or reimbursement to the activity loaning the employee, the labor costs shall be recorded as unfunded labor.

13. The following requirements apply to accounting for civilian leave:

a. Account 2215, "Accrued Payroll - Funded Annual Leave - Civilian," shall be established to account for accrued annual leave of DBOF civilian employees. A factor for annual leave accrual should be included within the stabilized rate or price charged by a DBOF activity. The stabilized rates or prices, therefore, provide funding for annual leave. The following accounting entry is appropriate for accrued funded annual leave.

Dr 6130 Annual Leave
    Cr 2215 Accrued Payroll - Funded Annual Leave - Civilian

b. Subaccounts to account 2213, "Accrued Payroll - Civilian - Employer Share of Fringe Benefits," shall be established to account for accrued sick leave, accrued holiday, and other miscellaneous leave in addition to other employee fringe benefits such as life and health insurance, retirement contributions, etc. The following accounting entry is appropriate for accrued civilian fringe benefits.

Dr 6113 Personnel Benefits - Civilian
    Cr 2213 Accrued Payroll - Civilian -
        Employer Share of Fringe Benefits
        (Subaccounts for sick leave, holiday leave, health insurance, life insurance, retirement contributions, etc.)

c. Leave shall be costed to job orders on the basis of an allocation factor for all time worked except when a holiday is involved. When an employee works on a holiday, the regular pay for the holiday shall be charged against the holiday leave accrual liability, the same as all employees who do not work on the holiday. Only the additional pay for working on the holiday along with the leave accrual at the prescribed allocation factor shall be costed to the job order as stated in subsection K.16., below.

d. Leave actually taken shall be relieved from the appropriate accrued leave account on the basis of payroll labor distributions and shall not be charged to current job orders. The following accounting entry is appropriate for leave actually taken.

Dr 2213 Accrued Payroll - Civilian -
        Employer Share of Fringe Benefits
        (Subaccounts for sick leave, holiday leave, other leave except annual leave.)
Dr 2215 Accrued Payroll - Funded Annual Leave - Civilian
    Cr 1012.1 Funds Disbursed - Operating Program - DBOF

e. Account 2215, "Accrued Payroll - Funded Annual Leave - Civilian," shall be reconciled at the end of the leave year with individual employee leave records. Adjustments to reconcile the balance in the account to the individual leave records shall be costed to account 6130, "Annual Leave," as a general and administrative (G&A) expense adjustment. After reconciliation, the balance of

the accrued annual leave account shall be carried forward into the following fiscal year. However, as stated in the following paragraph, accrued sick, holiday, and other leave balance not be carried forward into the following fiscal year.

f. Accruals for sick leave, holiday leave, and other leave accounts subsidiary to account 2213, "Accrued Payroll - Civilian - Employer Share of Fringe Benefits," are based on estimates of leave to be taken -- not the amount of leave earned. At fiscal year end, the estimates of leave to be taken will likely not agree with the actual leave taken. Adjustments necessary to result in a $-0- balance in the sick leave, holiday leave, and other leave subsidiary accounts shall be costed to account 6113, "Personnel Benefits - Civilian" as a general and administrative (G&A) expense adjustment.

14. The use of allocation factors for calculating leave accruals and applying them to the proper cost centers on labor cost distributions is normally the simplest, most economical, and most accurate method of accruing and costing leave. The allocation factors should be updated periodically to limit the adjustments to the accrued leave accounts at the end of the fiscal year to a minor amount.

a. Each depot maintenance activity may determine its own allocation leave accrual factors because of variances caused by average length of service, climate, turnover, and local leave usage experience.

b. When establishing the allocation factors, it is necessary to estimate the average annual work days for the activity to which the factor shall be applied. The following is an illustration:

c.

Total days in year		365.0
Less time off		
Average annual leave taken	20.0	
Average sick leave taken	9.0	
Holidays and other events	11.0	
Saturdays and Sundays	104.0	
Normal time off		144.0
Normal work days		221.0
Estimated overtime work		3.5
Estimated holiday time work		.5
Average work days		225.0

d. The annual leave accrual factor may be calculated as follows:

(1)	Average days net accrual of annual leave		21
(2)	Average work days (computed above)	÷	225
(3)	Preliminary accrual factor (excluding pay adjustments) [(1) ÷ (2)]	=	.093

(4)	Estimated regular pay for regular time and overtime worked and premium pay for holiday time worked	x	$10,000,000
(5)	Total amount accrued for annual leave using preliminary factor	=	$ 930,000
(6)	Estimated increase in accrual of annual leave due to pay increase	+	$ 30,000
(7)	Total leave accrual requirements	=	$ 960,000
(8)	Amount to which leave accrual factor is to be applied (K.13.d., above)	÷	$10,000,000
(9)	Annual leave accrual factor	=	.096

e. The composite leave accrual factor may be calculated as follows:

Type of Leave	Average Days Annually		Average Work Days		Accrual Factor
Annual	(see paragraph (K.14.d., above)			=	.096
Sick	8	÷	225	=	.036
Holiday and Other	11	÷	225	=	.049
Composite Accrual Factor					181

15. In addition to the factor to be added for leave, a factor shall be added to cover the employer's share of other employee fringe benefits such as retirement, life insurance, health, and other benefits. The factor to be applied may be developed by each activity. As an alternative, the factor developed annually by the Office of the Deputy Comptroller (Financial Systems) may be used. Standard accrual factors for leave, retirement, insurance, health, and other benefits shall be applied against all payroll costs.

16. The costs of overtime premium pay (that is, the amount paid for working overtime that is above the normal labor hour rate) shall not be charged directly to the applicable job order except when the overtime is clearly caused by the unique conditions of the job order. A clear relationship for the incurrence of overtime costs may be established when a depot maintenance activity agrees with a customer to meet an expedited completion date or to accept additional work within the same time frame on the same order. Otherwise, the overtime premium shall be recorded as an indirect cost.

17. Other premium pay includes those for extra shift, hazardous duty, and night duty. Consistent with the policy for overtime premium, other premium pay shall only be classified as a direct labor charge when the incurrence of the premium pay is clearly the result of unique conditions of the job order. Unless the peculiar conditions of the job order require the incurrence of the premium pay, premium pay shall be charged as indirect labor costs.

L. COSTING MATERIAL

1. All material and supplies received in a depot maintenance activity shall be accounted for in general ledger account 1511, "Operating Materials and Supplies Held for Use." This account shall be debited based upon receipt of material and supplies. The accounts for operating materials and supplies shall be credited with an offsetting debit (charge) to accounts 1581, "Work In Process - In-House," or 1582, "Work in Process - Contractor," upon issue of the material or supplies for use in the performance of depot maintenance work.

2. Direct material and supplies shall be charged directly to the applicable job order. Indirect material shall be charged to the using cost center upon issue.

3. Materials and supplies shall be valued at its acquisition cost.

4. Material furnished by a customer shall be used in the performance of depot maintenance work requested by the customer. Cost of the furnished material shall be recorded as an unfunded direct material cost in the amount determined by the customer. The depot maintenance activity shall use the same methods to maintain accountability over customer provided material as the depot maintenance activity uses for its own material.

5. Upon completion of a job order, any remaining customer furnished material shall be returned at the customer's request. Material abandoned by the customer shall be added to materials and supplies and credited to general ledger account 3220, "Transfers-In from Others Without Reimbursement."

6. Direct material is that material and supplies that can be identified, without undue cost or difficulty, in the performance of work specified by a work authorization document or job order. A small amount of material may be treated as indirect material even though the material is incorporated as a part of the final product, if this practice is consistently applied to all job orders. Direct material may either be incorporated as a part of the final product or consumed in the maintenance process.

7. Indirect material is that material that cannot be identified, without undue cost or difficulty, in the performance of work as specified by a work authorization document or job order. The determination of what constitutes "without undue cost or difficulty," is, although not defined, subject to reasonable interpretation. If questioned, it is the responsibility of the DBOF activity to demonstrate that identification of material (or labor) as direct would be unduly costly or difficult in relation to the benefit received.

8. The material and supplies on hand in a cost center should be reviewed at least annually to determine if excesses exist. Those items that are excess and are not needed shall be returned to the materials and supply stock account. Unused material returned to the materials and supplies stock account shall be recorded as follows:

a. Credit shall be granted to the job order originally charged for unused direct material and that material shall be recorded as an increase to account 1511, "Operating Materials and Supplies Held for Use," unless there is no foreseen use for the material. If the job order to which the material was

originally charged has been closed, and a decision is made not to reopen the order to post the credit, the credit shall be applied to account 7193, "Other Miscellaneous Gains." If there is no foreseen use, the material shall be recorded as an increase to account 1513, "Operating Materials and Supplies - Excess, Obsolete, and Unserviceable." The loss, if any, shall be recorded to account 7293, "Other Miscellaneous Losses," and charged as an indirect cost to the returning cost center.

b. Credit shall be granted for the return of usable indirect material to the materials and supplies stock account. The credit shall be applied to the indirect material expense account of the applicable cost center.

c. Items excess to the needs of the depot maintenance activity shall be returned to the supply system. Items returned to the supply system for which credit is not granted, or credit in a lesser amount than the cost of the material returned, shall be recorded to account 7293, "Other Miscellaneous Losses." The value of the credits received for returns shall be recorded to account 7193, "Other Miscellaneous Gains."

9. When an item such as an assembly, subassembly, or an end item is designated as an "exchange" item, the depot can issue a repaired item to the customer upon receipt of a repairable carcass from the customer. The customer shall be charged an average cost to repair the carcass. To facilitate this process, an average cost to repair shall be established for a fiscal year. The average cost to repair shall be determined by dividing historical cost to repair a type of carcass incurred each year by the number of units repaired and adjusting the result to the current year. The average cost to repair should be recomputed each fiscal year. For non-DoD carcasses including those owned by foreign governments refer to the requirements in Volume 15, "Security Assistance Policy and Procedures," of this Regulation.

10. If an exchange carcass is not repairable or an exchange item is missing and the depot maintenance activity is required to pay for a new item, the cost of the new item shall be charged to the job order as direct material cost.

M. OTHER DIRECT COSTS

1. Purchased services shall be charged as direct costs to the job order that benefits from the services. If only one job order benefits from a contract or purchase, the cost of the contract shall be charged to that job order. If more than one job order benefits from a contract, the costs of the contract shall be prorated to the benefiting job orders based upon estimates or calculations of the benefits received by each job order.

2. Purchased services that benefit indirect cost centers or the activity as a whole (general and administrative) shall be recorded as indirect costs.

3. The costs of contracts that supplement the maintenance capacity or capability of the depot shall be charged to the job orders that use the additional maintenance services.

4. The costs of material procured from contractors shall be recorded in the applicable operating materials and supplies account and charged to job orders under normal procedures. If, however, material is procured for a specific job order, the acquisition cost of the material shall be a direct charge to the applicable job order.

5. Travel and per diem expenses (including regular labor hours spent in travel) shall be charged as direct costs only if the labor hours worked while traveling are charged as direct labor. If more than a single job order is worked on, the travel and per diem expenses shall be prorated on the basis of the related direct labor. Otherwise, all travel and per diem expenses shall be charged as an indirect expense of the employees' cost center.

6. The costs of Permanent Change of Station (PCS) movements for transferred civilian employees that are the responsibility of the depot maintenance activity shall not be charged as a direct cost but as a G&A expense and recorded in accounts 6116, "Travel and Transportation of Persons," and 6117, "Transportation of Things."

N. INDIRECT COSTS

1. The overhead rates and standard costs discussed in this chapter should not be confused with stabilized billing rates. Stabilized billing rates or stabilized prices are used solely to price work to DoD-funded customers and may only be changed upon approval of the Office of the Comptroller of the Department of Defense.

2. All depot maintenance costs incurred that are not chargeable as direct costs, shall be recorded as indirect costs unless specifically designated otherwise in this Regulation. Indirect costs shall be recorded by object class as specified in OMB Circular A-11, and by general ledger account as specified in Volume 1, chapter 7 of this Regulation. Indirect costs shall be recorded by activity, department, cost center, or other organizational element responsible for incurring the cost. The number and type of indirect cost centers to be established is a function of the diversity of the indirect activities at the depot and the level of management information required. The minimum number of cost centers required to separately identify and record homogeneous groupings of cost is a function of the number of different types of facilities, equipment, and/or skills required in the indirect area. The number of additional cost centers is a management prerogative in terms of the number and type of cost centers needed to ensure efficient and effective operations.

3. Costs of departments, service, and processing centers that provide support directly to direct cost centers shall be classified as operating support indirect cost pools. The costs assigned to these cost pools shall be allocated in full to the benefiting direct cost centers (see subsection N.5., below) and not included in the G&A expense rate described in subsection N.6., below. Costs assigned to operating support indirect cost pools shall be allocated to the benefiting direct cost centers by the use of a base that results in the distribution of costs incurred in proportion to the benefits received.

4. Indirect costs shall be allocated to job orders by the use of an operations overhead rate and a G&A rate as described in subsections N.5. and N.6., respectively, below. Neither of these rates should be confused with the stabilized billing rates to be used to price billings to DoD customers.

5. An operations overhead rate shall be developed for each direct cost center in which direct labor is utilized in the performance of maintenance activities. The operations overhead cost pool shall consist of all indirect costs incurred by the cost center plus the allocated share of operating support costs of departments or service cost centers, if any (see subsection N.3., above). The base to be used to allocate the operations overhead cost pool to the direct cost centers is direct labor hours. Direct labor hours shall include both military and civilian direct labor. This base is appropriate because operations overhead in a maintenance activity is normally a function of direct labor hours. When the use of direct labor hours as an allocation base will not result in an equitable allocation of indirect costs (that is, charges are not commensurate with benefits received), a more appropriate allocation base may be selected providing:

a. An organizational authority, including the Office of the DoD Comptroller, that is above the level of the local performing depot maintenance activity has not directed that particular depot maintenance activity to use a specific allocation base.

b. The alternate allocation base preferred for use is approved by the comptroller of the local performing depot maintenance activity. (If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing depot maintenance activity.)

c. Justification for the decision is documented and retained in the office of the local comptroller for review.

6. G&A expenses shall be allocated to job orders through the use of an overhead rate separate from the operations overhead rate. The G&A expense pool shall include all G&A expenses incurred by the maintenance activity. The base used to allocate G&A expenses to a job order is total incurred costs - both direct and indirect. When the use of total incurred costs as an allocation base will not result in an equitable allocation of G&A expenses (that is, charges are not commensurate with benefits received), a more appropriate allocation base may be selected providing:

a. An organizational authority, including the Office of the Under Secretary of Defense (Comptroller), that is above the level of the local performing depot maintenance activity has not directed that particular depot maintenance activity to use a specific allocation base.

b. The alternate allocation base preferred for use is approved by the comptroller of the local performing depot maintenance activity. (If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing depot maintenance activity.)

c. Justification for the decision is documented and retained in the office of the local comptroller for review.

7. Overhead costs and G&A expenses shall be allocated to job orders through the use of, respectively, the operations overhead rate and G&A rates. These rates are not to be confused with the stabilized billing rates used to price the sale of services to DoD-funded customers. The rates shall be developed based upon estimated costs with an anticipated level of activity (base). The applied overhead account shall be used to record over and/or under absorbed overhead. This difference is a variance. A variance between actual overhead costs and applied overhead may require a change in the overhead rate. The development of a new overhead rate shall include plans to absorb the amount of the realized variance during the period of time the new overhead rate is in effect. A change in the overhead rate may be approved by the performing depot maintenance comptroller when it is apparent that

a. The variance is not due to seasonal fluctuations such as summer vacations;

b. The variance will continue to exist at fiscal year end; and

c. The expected variance is significant. (The determination of what is "significant" shall be made by, or in consultation with, the local depot maintenance comptroller.)

8. When a job order is complete, it shall be closed (moved from work in process to account 6500, "Cost of Goods Sold") including overhead costs allocated based upon overhead rates in effect during the life of the order. Adjustments in overhead rates made after a job order is closed shall not be posted to a completed job order unless the effect of the adjustment would have a significant impact on the total cost assigned to the job order. Adjustments applicable to the current fiscal year that are significant shall be posted to completed job orders and adjusted to account 6500, "Cost of Goods Sold." Other adjustments shall be recorded in a G&A account subsidiary to account 6900, "Other Expenses."

O. COSTS REQUIRING SPECIAL ATTENTION

1. Quality Assurance. The depot maintenance quality assurance function; that is, test design and analysis, performance of tests necessary to independently assure the quality of the work accomplished, and related supervision and support, shall be charged as a direct cost to the applicable job order. Quality assurance costs that are not identifiable to specific job orders shall be charged to an operating support indirect cost center as described in subsection N.3., above, and allocated to the benefiting direct cost centers. Quality Assurance cost incurred in support of workload for other than depot maintenance or other activities shall be directly charged to those activities.

2. Inspections and Tests. Inspections and tests made to determine work requirements; that is, preshop analysis, initial evaluation and inspection, and pre-inspection or shakedown inspection, shall be recorded as "direct labor" on the applicable job order. Also, final inspection and tests performed after the maintenance process is complete to assure operational or functional adequacy

are recorded as "direct labor - production." Operational inspections and tests performed during the maintenance process to determine the condition of the item and make adjustments (calibrate) are inherent in the maintenance process and shall be recorded as "direct labor - production."

3. Reparables. Reclamation of unserviceable depot level reparables (DLRs) is performed at the direction of the National Inventory Control Point (NICP) item manager. Items produced as a byproduct of the reclamation process shall be returned to the DoD supply system. A separate job order shall be established for each reclamation project.

4. Borrowed Assemblies, Subassemblies, Components, or Parts.

a. "Backrobbing" (also called "robback") is defined as the taking of an assembly, subassembly, component, or part from an item that has been inducted for maintenance for use on another item inducted for maintenance with the intention of replacement at a latter time. It is the temporary borrowing of the required part. Generally, this practice is authorized only to prevent a work stoppage. The current acquisition cost of the assembly, subassembly, component, or part that was "borrowed" and the cost of installing the borrowed item shall be charged to the benefiting job order. All costs incurred in removing the "borrowed" item and reinstalling the replacement item shall be charged to the operations overhead of the cost center requiring the part. These costs shall not be separately identified for reporting purposes.

b "Cannibalization" is defined as the taking of an assembly, subassembly, component, or part from an item (serviceable or unserviceable) that has not been inducted for maintenance (without regard to its location or ownership) by a maintenance activity for use on an item which has been inducted for maintenance. Generally, cannibalization is authorized only to prevent a work stoppage. The current acquisition cost of the assembly, subassembly, component, or part that was cannibalized and the cost of installing it shall be charged to the benefiting job order. All costs incurred in removing the cannibalized item and reinstalling the replacement item shall be charged to the operations overhead of the cost center requiring the part. These costs shall not be separately identified for reporting purposes.

5. Calibration. Calibration of an assembly, subassembly, component, part, or other equipment from an item that has been inducted for maintenance shall be charged to the benefiting job order. Calibration of equipment used by a depot maintenance cost center in the performance of its work shall be charged as an indirect expense of the cost center that uses the item being calibrated.

6. Modifications and Upgrades

a. Establishment of Job Orders. A separate job order shall be established for each modification or upgrade of a major end item such as an aircraft. Separate job orders shall only be established for other than major end item modifications or upgrades when the work is easily identifiable; such as when the modification or upgrade is the primary purpose of inducting the item. The cost of material used in the modification or upgrade process, such as a modification kit, and the cost of direct labor incurred to install the modification shall be charged to the modification job order.

b. Modification/Upgrade vs Overhaul Costs. When a modification or upgrade is performed concurrently with depot maintenance work on the same major end item, direct modification or upgrade material (modification kits) used shall be charged to the modification or upgrade job order. However, direct labor shall be charged as modification or upgrade work only when it is peculiar to the modification or upgrade process. For example, when modification or upgrade is performed concurrently with overhaul, labor costs incurred in disassembly, test, inspection, repair, rebuild, replacement and servicing, etc., that are performed as a normal part of the overhaul shall be charged to depot maintenance overhaul and not prorated between overhaul and modification or upgrade. Labor costs incurred installing a modification or upgrade concurrently with depot maintenance overhaul work may be charged to the job order for the depot maintenance overhaul if the amount of the modification or upgrade labor is so small that no significant or material distortion in either the modification or upgrade or the depot maintenance cost shall occur. When this practice is followed, there shall be no adjustments to the depot maintenance overhaul job order on the basis of labor or material standards or other estimates of modification or upgrade labor in order to support reimbursement from fund citations for modification or upgrade work.

7. Automated Data Processing Costs

a. Software Development Costs. The costs of computer programming efforts for depot maintenance equipment (that is, the costs of software development efforts for use on depot maintenance activity assets) shall be capitalized when they meet the DoD capitalization criteria. Programming efforts that do not meet prescribed capitalization criteria shall be treated as operations overhead expense of the performing cost center. If the programming effort consumes significant amounts of resources, a separate indirect department or service center shall be established and the capitalized and other costs of the service center allocated to the benefiting direct cost centers on the basis of the program use. Costs of programming effort for non-depot maintenance functions or other activities shall be charged to those activities before the remaining costs are allocated to the benefiting direct cost centers. When the programming costs are not appropriately chargeable as an operations overhead cost, the costs shall be charged to a G&A expense account.

b. Software Support. Software support is performed by depot maintenance activities to ensure that fielded software systems continue to support original missions as updated by modification and improvement efforts. All depot maintenance costs for software support shall be charged to specific job orders established for this purpose. Costs charged to the orders shall include all applicable direct labor, direct material, all other direct costs, operations overhead and G&A costs.

8. Machine Set-Up Costs

a. The cost of programming effort for automatic test and numerically controlled machines shall be charged to the benefiting job order(s). However, if a significant effort is expended for programming that shall benefit more than one job order, then the programming cost should be allocated to all benefiting job orders. The nonproductive labor hours of employees waiting for programming to be completed is an indirect expense of the worker's cost center.

b. Machine tool set-up time shall be charged to the benefiting job order(s). Set-up time is normally recorded as direct labor on a job order and should not be separately recorded from the job order. However, if a significant effort is expended for a set-up that shall benefit more than one job order, then the set-up should be allocated to all benefiting job orders. The nonproductive labor hours of employees waiting for a set-up to be completed is an indirect expense of the worker's cost center.

9. Defective Work and Spoilage Costs

a. Charging as Direct Costs. Efforts undertaken to correct work defects and spoilage when quality control standards are not met shall be charged to the applicable job order. Examples of corrective work that should be directly charged to a job order include:

(1) Acceptable reject rates for castings, welds, and brazing.

(2) Minor realignment or refitting of units that are improperly finished or aligned.

(3) Resoldering of connections broken in transit.

b. Charging as Indirect Costs. When unusual defects or excessive spoilage occurs, the responsible cost center's indirect material and labor costs shall be charged with the costs of the corrective work. When the responsible cost center cannot be determined, the applicable material and labor cost shall be charged to an indirect expense account subsidiary to account 6900, "Other Expenses." Defective work and spoilage that is chargeable to indirect costs includes the following:

(1) Cost of additional material and labor necessary to remedy or rework end products when defects beyond acceptable levels are detected during the normal production and inspection processes. Such costs do not add value to the work performed but are necessary to bring the work up to stated specifications.

(2) Costs related to work on items with defects so severe that the item must be removed from the production process and sold as scrap or returned in part to operating materials and supplies. When this happens, the applicable job order should be relieved of the costs and the indirect costs of the responsible cost center charged. If a responsible cost center cannot be determined, a G&A account for "Defective Work and Spoilage," shall be charged for the costs of the rejected item.

10. Proceeds From Scrap Sales. Proceeds from sale of scrap generated by depot maintenance activities that are not Defense Business Operations Fund activities are credited to a miscellaneous receipts account with the Treasury and not credited to the account of the depot maintenance activity. However, net proceeds from the sale of scrap generated, collected, or otherwise obtained by Defense Business Operations Fund activities as a part of normal business operations shall be credited to the Defense Business Operations Fund and accounted for as follows:

a. Estimated net proceeds from the sale of material removed during work on vessels, aircraft, vehicles, and weapons that can be feasibly and economically related to a specific job order may be credited to that job order. When actual net proceeds are known, the job order amount shall be adjusted if the job order is still open. Otherwise, the net difference between the estimated amount and the actual amount of net proceeds shall be adjusted to account 7110, "Gains on Disposition of Assets."

b. Carcasses received from customers that are later condemned or deemed unserviceable are considered a normal part of Defense Business Operations Fund operations. Therefore, the proceeds from the sale of carcasses received from customers shall be credited to account 7110, "Gains on Disposition of Assets."

c. All other proceeds from the sale of Defense Business Operations Fund items shall be credited to account 7110, "Gains on Disposition of Assets."

11. Mobilization Capability Costs. Mobilization capability costs include the costs to maintain a surge capacity and/or maintain other assets, functions, or capabilities required to meet an operational contingency as documented in Defense Planning Guidance or operational plans. Surge capacity most often manifests itself in facilities and equipment that are unutilized or under utilized during normal peacetime operations.

a. Underutilized Capacity. Underutilized plant and equipment results when the volume of workload is less than full capacity of an operating facility. The cost of maintaining underutilized capacity (except for the DBOF Transportation Business Area) is not considered a mobilization requirement eligible for separate billing to, and reimbursement from the Operations and Maintenance (O&M) appropriation of the DoD Component having management responsibility for the activity at which the unutilized capacity resides appropriation funding.

b. Unutilized Capacity. Unutilized (reserve) plant and equipment capacity is that part of a DBOF activity's assets including plant and equipment that is held in a standby, idle, or lay-away status.

(1) Unutilized capacity associated with the ability to satisfy a projected surge capability is considered a mobilization requirement eligible for separate appropriation funding when it is, or is expected to be, unutilized for six consecutive months or more. Such amounts shall not be funded in an appropriated or DBOF fund different from that in which funds for this purpose were budgeted unless approved by the Under Secretary of Defense (Comptroller).

(2) Unutilized capacity associated with the ability to provide capability in excess of any known or projected requirement is not a mobilization requirement.

c. Accounting for Unutilized and Underutilized Capacity. If feasible, a separate cost center shall be established to account for unutilized capacity costs applicable to the continuance of a mobilization requirement. Where necessary, such costs shall be identified to the function or task level to segregate costs between normal operating costs and mobilization costs.

d. Funding of Unutilized and Underutilized Capacity

(1) Unutilized Capacity. All elements of cost required to maintain unutilized plant and equipment capacity shall be DBOF funded costs. A separate job order shall be established to accumulate the direct, indirect, and G&A costs supporting the maintenance of unutilized plant and equipment capacity. Reimbursement from the Operations and Maintenance (O&M) appropriation of the DoD Component having management responsibility for the activity at which the unutilized capacity resides shall be requested to pay for those costs except for depreciation of unutilized assets held to satisfy a mobilization requirement which shall be unfunded. The percentage of G&A costs allocated to the unutilized plant capacity job order shall be the same as the percentage of G&A costs allocated to other activity job orders.

(2) Underutilized Capacity. The costs required to maintain underutilized plant and equipment shall be DBOF funded costs and shall be a cost of the cost center in which the underutilized plant and equipment resides. The costs of underutilized plant and equipment shall be included in the stabilized rates and prices charged to customers of a DBOF activity.

12. Job Order Cancellations or Reductions in Scope. When a job order is canceled or reduced in scope after a DBOF activity has commenced work or incurred costs on the order, the costs incurred, plus the applied overhead (that is, indirect and other normally allocated overhead (G&A) costs) plus costs associated with the cancellation or reduction shall be charged to the customer. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, noncreditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, costs charged to customers should include the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs. Costs which are indirectly associated with cancellation or reduction actions shall not be charged to the customer. Although normally allocated G&A costs shall be charged to cancelled or reduced customer orders, underapplied overhead costs that may result in the DBOF activity as a whole from a reduced workload base shall not be charged to the customer cancelling or reducing their order but shall be recorded against the net operating results of the performing DBOF activity. The following accounting entry illustrates the recordation of underapplied overhead costs directly against net operating results:

* Dr 3321 Net Results of Operations - DBOF *
* Cr 6600 Applied Overhead *

* To record underapplied cost of overhead directly to net *
* operating results. *

13. Employee Training Costs. The cost of training performed for the depot maintenance activity's benefit shall be recorded as an indirect expense of the employees' cost center.

a. Training costs shall include all applicable elements of cost; that is, labor hours of trainees, travel, transportation, per diem costs, labor hours of instructors, tuition, books, and materials. Training costs shall include the cost of planning the course of instruction, conducting the course, and any related support effort.

b. The development and qualification of employees requested by activities outside of the performing maintenance activity shall be charged to a specific job order.

c. The hours of on-the-job training in the form of actual productive effort (as opposed to observation or other noncontributory effort) is chargeable as direct labor to the related job order. Noncontributory effort, including time spent observing others, should be charged to the indirect costs of the cost center of the employee.

14. Technical Assistance. Depot maintenance technical assistance is a specialized service provided by qualified depot maintenance technicians that is performed in many different ways depending upon the requirement. Technical assistance may include instruction on maintenance repair or support processes for military equipment, special programs for military reserve units, training foreign nationals using uniquely qualified personnel to provide technical assistance, performing specific work requiring special skills for operational activities, other maintenance organizations, or foreign governments. All depot maintenance activity costs for technical assistance shall be charged to specific job orders established for that purpose. The costs charged to these job orders shall include direct labor, direct material, all other direct costs, and operations overhead and G&A costs including variances for applied overhead.

15. Assets Manufactured by a Depot Maintenance Activity for Itself. Normally, the material requirements of a depot maintenance activity are met by the supply system or commercial procurement. However, in some cases, material requirements may be fulfilled by a manufacturing process at the depot maintenance activity. The manufacturing process includes several phases:

a. A work authorization document (in-house job order) to replace the normal funded customer order.

b. The costing of direct labor, material, and applied overhead to the manufacturing job order as work in process.

c. The posting of the completed job order to operating materials and supplies, an asset account, or, if the transaction is reimbursable, to cost of goods sold.

16. Special Non-Maintenance Functions. Occasionally, some uniquely qualified depot maintenance personnel are asked to perform various types of special functions that are not maintenance activities or functions. Such work is chargeable to other separately budgeted functions such as supply operations, property disposal, or family housing.

17. Concurrent Maintenance. Concurrent maintenance occurs when the component parts of an end-item are inducted into the maintenance process at the same time as the end-item is inducted for maintenance. This approach is used instead of an exchange. The approach selected is usually a function of the desired outcome and the availability of exchanges. Concurrent maintenance and exchange do not normally result in the same costs being incurred, and no attempts should be made to balance the costs incurred for work performed in the two separate modes. All concurrent maintenance costs shall be charged to the weapon system order and not allocated to component repair job orders.

18. Host/Tenant Support Services. Depot maintenance activities give and receive different types and levels of support services to and from the host installation depending upon location and mission assignments.

a. Uniform costing requires that support services that benefit the performance of the depot maintenance function be recognized as part of the indirect expenses of the benefiting cost center or the entire depot maintenance activity as appropriate regardless of the funding source for the support services.

b. Within the Defense Business Operations Fund, depot maintenance activities shall not provide or receive goods or services on a nonreimbursable basis. In addition, offset or barter arrangements shall not be made with other activities for goods or services. Special arrangements to avoid normal funding requirements may result in apparent violations of the Anti Deficiency Act.

19. Employee Bonuses and Awards. Employee monetary awards paid to employees for suggestions, and one time bonuses, such as special act awards performance bonuses, and productivity gain sharing program payouts, shall be charged to indirect operations overhead of the cost center of the employee receiving the award. Performance appraisals that result in annual pay increases such as sustained superior performance, outstanding, exceptional, and fully successful pay ratings are simply increases in base pay that affect regular payroll cost.

CHAPTER 64

ARMY INDUSTRIAL ACTIVITIES

SALE OF MANUFACTURED ARTICLES OR SERVICES

OUTSIDE OF THE DEPARTMENT OF DEFENSE

A. AUTHORIZATION. Section 158 of the Fiscal Year 1994 DoD Authorization Act amended Chapter 433 of title 10, United States Code to authorize particular sales of certain working-capital funded industrial activities of the Army. Its provisions allowed for:

1. Authority Sell Outside DoD. A working-capital funded Army industrial facility (including a Department of the Army arsenal) that manufactures large caliber cannons, gun mounts, recoil mechanisms, ammunition, munitions, or components thereof may sell manufactured nondefense-related commercial articles or services to a person outside the Department of Defense if --

(a) in the case of an article, the article is sold to a United States manufacturer, assembler, developer, or other concern --

(1) for use in developing new products;

(2) for incorporation into items to be sold to, or to be used in a contract with, an agency of the United States;

(3) for incorporation into items to be sold to, or to be used in a contract with, or to be used for purposes of soliciting a contract with, a friendly foreign government; or

(4) for use in commercial products;

(b) in the case of an article, the purchaser is determined by the Department of Defense to be qualified to carry out the proposed work involving the article to be purchased;

(c) the sale is to be made on a basis that does not interfere with performance of work by the facility for the Department of Defense or for a contractor of the Department of Defense; and

(d) in the case of services, the services are related to an article authorized to be sold under 10 USC 4543 and are to be performed in the United States for the purchaser.

B. ADDITIONAL REQUIREMENTS. The following additional requirements also apply to sales under 10 USC 4543.

1. The authority to sell articles or services shall be exercised at the level of the commander of the major subordinate command of the Army with responsibility over the facility concerned.

2. A purchaser of articles or services shall use advance incremental funding to pay for the articles and services.

3. In the case of a sale of commercial articles or commercial services in accordance with paragraph A. above, by a facility that manufactures large caliber cannons, gun mounts, or recoil mechanisms, or components thereof, that facility shall --

(a) Charge the buyer the fixed and variable costs (that is, the full cost that is charged to buyers within the DoD) that are associated with the commercial articles or commercial services sold.

(b) Enter into

(1) a firm, fixed-price contract for which the firm, fixed-price is, in good faith, established to recover the full cost that would be charged to a buyer within the DoD, or

(2) a cost reimbursement contract for the sale.

C. DEFINITIONS. In this chapter, and as related to 10 USC 4543, the following definitions apply.

1. Commercial Article. An article that is usable for a nondefense purpose.

2. Commercial Service. A service that is usable for a nondefense purpose.

3. Advance Incremental Funding. With respect to a sale of articles or services, means a series of partial payments for the articles or services that includes:

(a) one or more partial payments before the commencement of work or the incurring of costs in connection with the production of the articles or the performance of the services, as the case may be, and:

(b) subsequent progress payments that result in full payment being completed as the required work is being completed.

4. Variable Costs. With respect to sales of articles or services under 10 USC 4543, means the costs that are expected to fluctuate directly with the volume of sales and --

(a) in the case of articles, the volume of production necessary to satisfy the sales orders; or

(b) in the case of services, the extent of the services sold.

D. RELATIONSHIP TO ARMS EXPORT CONTROL ACT. Nothing in 10 USC 4543 shall be construed to affect the application of the export controls provided in section 38 of the Arms Export Control Act (22 USC 2778) to items which incorporate or are produced through the use of an article sold under this section.

CHAPTER 65

MOBILIZATION COSTS

A. APPLICABILITY

The policy contained herein applies to all DBOF activity business areas and covers the requirement for a separate appropriation for peacetime costs to maintain a mobilization capability. This requirement shall hereafter be referred to as mobilization requirement.

B. SCOPE

Each DBOF business area must plan for and maintain the capability to expand or alter operations, or to provide extraordinary supply or other functional area support necessary, to satisfy mobilization conditions when required. The nature and extent of the costs to be paid by a separate appropriation rather than charged to other business customers through the rates shall be in accordance with policy and procedures outlined below.

C. DEFINITIONS

Mobilization capability costs include the costs to maintain a surge capacity, to procure and maintain approved war reserve material levels, and/or to maintain other assets, functions, or capabilities required to meet an operational contingency as documented in Defense Planning Guidance or operational plans.

1. Surge Capacity

a. A business's total surge capacity most often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations.

(1) Unutilized (Reserve) Plant and Equipment Capacity is that part of a DBOF activity's assets including plant and equipment that is held in a standby, idle, or lay-away status or for War Reserve Storage.

(2) Underutilized Plant and Equipment results when the volume of workload is less than full capacity of an operating facility. The cost of maintaining underutilized capacity, except as defined below for the Transportation Business Area, is not considered a mobilization requirement eligible for separate appropriation funding under this policy.

b. Unutilized capacity associated with the ability to satisfy a projected surge capability is considered a mobilization requirement eligible for separate appropriation funding when it is, or is expected to be, unutilized for six consecutive months or more. Such amounts shall not be funded in an appropriated or DBOF fund different from that in which funds for this purpose were budgeted unless approved by the Under Secretary of Defense (Comptroller).

c. Unutilized capacity associated with the ability to provide capability in excess of any known or projected requirement is not a mobilization requirement.

2. War Reserve Materiel. War reserve materiel includes secondary items procured and/or stored in support of wartime scenarios established in Defense Planning Guidance or contingency operations identified in specific Operational Plans.

D. FUNDING

1. Operations. All elements of cost required to maintain unutilized plant and equipment capacity shall be DBOF funded costs. The portions of direct, indirect, and G&A costs supporting the maintenance of this capacity shall be separately accumulated. When a portion of a DBOF activity's plant is purposely set aside as idle capacity, a direct appropriation to the Component O&M shall be requested to pay for the cost of essential operation and maintenance for that portion of the plant and idle equipment as well as an allocated portion of G&A costs. The percentage of G&A costs allocated to the cost center for the unutilized plant capacity shall be the same as the percentage of G&A costs allocated to other cost elements of the activity. Separate cost centers shall be maintained for all such costs.

2. War Reserve Materiel. The purchase of secondary items of supply as War Reserve Materiel shall be funded from a direct appropriation. Such appropriated amounts shall be reflected as a separate goal within the applicable Supply Management or Commissary Resale business area Annual operating Budget. Items such as ammunition and/or principal and major end items procured for war reserve shall not be DBOF-funded, but shall be funded through amounts available to Component/Defense Agency procurement appropriations.

3. Capital Investments. New capital asset investments at DBOF activities necessary to satisfy a mobilization requirement shall be funded from component procurement appropriations. DBOF activity business areas shall assume ownership of such assets. Depreciation expense for new capital assets to satisfy a mobilization requirement (as well as other, older capital assets laid away for use in mobilization) shall be recorded as unfunded depreciation.

4. United States Transportation Command (USTRANSCOM). Because a capability must be maintained by the USTRANSCOM DBOF Transportation business area to expeditiously respond to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition, direct appropriation funding will be provided for:

a. Air Mobility Command (AMC). Airlift flying hours and associated costs are based on the requirement to maintain the capability of the airlift system, including crew training (and concurrent mobilization) requirement. The airlift system training generated capacity is used by DoD to move air eligible cargo and passengers. In order to extend air eligibility and increase capacity utilization, rates are generally established to be competitive with commercial carriers. However, resulting contributed revenue

does not cover the costs of operations due to the mobilization requirement. This requirement will be recorded/budgeted as follows:

(1) The costs for military personnel will be recorded (at the civilian equivalency rate) in accordance with the policy on Military Personnel Expense in Chapter 63, "Expenses," of this Volume. Military personnel within the Air Mobility Command will be direct funded by a Military Personnel appropriation. Although the cost shall be recorded as a DBOF cost, it shall be recorded so that it is not required to be recovered in customer rates.

(2) The balance of the mobilization requirement costs will be funded through a direct appropriation to the Air Force and will be placed as an order with the DBOF. This will assure that revenue is reflected to offset the costs.

b. Military Traffic Management Command (MTMC). The MTMC shall plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. The costs of RIC will be funded by Army Operation and Maintenance.

E. ACCOUNTING

A cost center capability shall be established to separately account for all costs applicable to the continuance of a mobilization requirement. Where necessary, such costs shall be maintained to the function or task level, as necessary to segregate costs between normal operating costs and mobilization costs.

Purchases of DBOF-funded War Reserve items shall be accounted for at the same level of detail as items procured for peacetime requirements. Amounts shall be recorded in separate general ledger accounts, or appropriate subaccounts, to retain separate visibility of such assets. Inventory levels funded by such amounts are not available for sale; therefore, cost shall be separately maintained and reported to ensure that the unit cost targets for the Supply Management business are not affected.

F. REPORTING

DBOF business area activities shall record and report financial information on the maintenance of a mobilization capability in accordance with the DoD accounting and reporting requirements specified for the DBOF. The Monthly Report of Operations (AR 1307) shall be prepared to include a footnote which identifies the amount of the mobilization requirement costs which are funded through direct appropriations or reimbursable orders accepted specifically for mobilization requirements.

CHAPTER 66

ACCOUNTING FOR INTRAFUND TRANSACTIONS

(Guidance on accounting for intrafund transactions within the Defense Business Operations Fund will be provided at a later date.)

CHAPTER 67

UNIT COST GUIDANCE FOR THE DBOF

(Guidance on unit costing within the Defense Business Operations Fund will be provided at a later date.)

RESERVED FOR FUTURE USE

RESERVED FOR FUTURE USE

CHAPTER 70

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION I

GENERAL PREPARATION INSTRUCTIONS

A. <u>GENERAL</u>

1. The Defense Business Operations Fund Accounting Report consists of three principal statements:

a. Statement of Financial Position which discloses the reporting entity's assets, liabilities, and net position;

b. Statement of Cash Flows which discloses the reporting entity's gross cash receipts and disbursements with an explanation of the changes in cash for the reporting period;

c. Statement of Operations (and Changes in Net Position) which discloses the results of the reporting entity's operations for the reporting period, including the changes in the entity's net position from the end of the prior reporting period.

2. An identification of the hierarchy of accounting standards to be followed in preparing Fund financial statements is contained in Chapter 50, "Defense Business Operations Fund General Policies and Requirements," of this Regulation and is summarized below.

a. Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals. (The JFMIP principals are the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States.)

b. Form and content requirements included in OMB Bulletin 93-02, dated October 22, 1992 and subsequent issuances.

c. Accounting standards contained in agency (i.e., DoD) accounting policy, procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices.

d. Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

3. Notes to the principal sections, which are an integral part of the principal statements, shall provide additional disclosures necessary to make the principal statements fully informative and not misleading.

4. The Defense Business Operations Fund Accounting Report contained herein was designed based on Fiscal Year 1994 form and content reporting guidance. Annually, the Office of the Under Secretary of Defense (Comptroller) publishes DoD guidance on the form and content of financial statements. Accordingly, the Defense Business Operations Fund Accounting Report may be revised to maintain comparability.

5. The Statement of Operations consists of six parts:

a. Part I identifies, in summary fashion, the cumulative year-to-date results of operations.

b. Part II identifies the net changes in equity.

c. Part III identifies the components of costs of goods sold.

d. Part IV identifies detail expense information.

e. Part V reconciles Net Operating Results to the operating results used for rate-setting purposes.

f. Part VI identifies the obligations and outlays for the capital investment program.

g. Part VII reports inventory management data for the Supply Management and Commissary Resale business areas.

B. <u>REPORTING REQUIREMENT</u>

1. <u>Applicability</u>. The provisions of this section apply to all DoD Components operating a Defense Business Operations Fund activity. A listing of DBOF financial reporting entities is attached to this section. Within the attached listing, the lowest level for which individual AR 1307 reports are required are indicated by an asterisk (*) symbol. The levels for which a consolidated AR 1307 report are required are indicated in the attached listing by a pound (#) symbol. Consolidated statements are required for each DoD Component business area.

2. <u>Report Forms</u>. The financial statement formats contained herein show the report formats that must be used. The reports shall be prepared or reproduced on letter size paper (8 1/2" x 11"). Reports produced by automatic data processing equipment may be substituted for the formats illustrated. The following are the reports to be submitted:

Statement of Financial Position
Statement of Cash Flows
Report on Operations
Part I - Statement of Operations
Part II - Changes in Net Position
Part III - Cost of Goods Sold and Services Provided
Part IV - Expenses
Part V - Recoverable Operating Results

Part VI - Capital Investment Program
Part VII - Inventory Management Report - Supply Management Business Area

* 3. Reporting Responsibilities. DoD Components are responsible for the information included in the AR 1307 report and for arranging for the preparation and submission of the report.

* 4. Frequency of Reports. Unless otherwise specified by the DoD Comptroller, the AR 1307 reports shall be prepared and submitted monthly, no later than the 18th workday of the month immediately following the end of the reporting period.

* 5. Distribution

a. Consolidated DoD Component and Business Area Reports. A copy of consolidated DBOF business area reports shall be submitted to:

(1) Director for Revolving Funds, Office of the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller), the Pentagon, Room 3B866.

(2) Director for Financial Review and Analysis, Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management), Office of the Under Secretary of Defense (Comptroller), the Pentagon, Room 1A658.

(3) Office of the Assistant Secretary of the Army (Financial Management), Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), and Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller), and Comptrollers of the Defense Agencies for business areas for which they are responsible.

(4) Management Command responsible for the oversight of a business area, if requested by a DoD Component.

b. Activity Level Reports. A copy of DBOF activity level reports shall be submitted to:

(1) Office of the Assistant Secretary of the Army, Navy, and Air Force (Financial Management), and Comptrollers of the Defense Agencies, for activities for which they are responsible, if requested by that DoD Component.

(2) Management Command responsible for the oversight of a business area, if requested by a DoD Component.

(3) The DBOF activity whose operations are being reported. The report provided to a DBOF activity shall disclose any adjustments made to the financial data submitted by that activity.

C. DETAIL INSTRUCTIONS

1. The control accounts specified in Addendum 1 to Chapter 7, Volume 1 of DoD 7000.14-R, DoD Financial Management Regulation, as well as accounts referred herein, are authorized for use by DBOF activities. These accounts are

supported by such subsidiary accounts as may be necessary, together with the accounting policy guidance contained in DoD 7000.14-R, shall be used to accumulate the financial information being reported.

2. The instructions to the AR 1307 identify the specific data, and appropriate source of that data, for amounts to be entered into each line of each report. Newly established DoD Uniform Chart of Accounts general ledger accounts are indicated by an asterisk.

3. If existing accounting systems do not utilize the DoD Uniform Chart of Accounts, the balance for accounts within those systems which correlate to the listed DoD Uniform Chart of Accounts will be used in accordance with crosswalks developed by the Defense Finance and Accounting Service.

4. Amounts will be reported in thousands of dollars ($000) for all parts of the report (that is, $1,000 = $1; $10,000 = $10; $100,000 = $100; etc.).

5. Report lines that require the identification of the nature of specific amounts will be footnoted, and such footnotes will be provided with each report.

6. Adjustments for amounts otherwise accounted for or reported at the DoD Component level should be allocated or assigned to the applicable business areas. Similarly, adjustments for amounts otherwise submitted for or reported at the business area level should be allocated or assigned to the applicable individual activities. Such allocations shall be made, by the DFAS, in accordance with direction received from the DoD Components. However, as a general rule and where reasonable, all such adjustments should be allocated to individual activities. Adjustments made at the business area level shall be shown separately as a business area adjustment. Adjustments allocated to the individual activity level shall be entered into the activities' installation level accounting records.

7. Policies that, if implemented retroactively, could have a significant adverse impact on the accuracy and integrity of financial reports will not be retroactively implemented without a clearly offsetting benefit or unless directed by an external authority such as Congress.

DEFENSE BUSINESS OPERATIONS FUND REPORTING ACTIVITIES
Key to Symbols

= DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

ARMY

ARMY SUPPLY MANAGEMENT

Wholesale
* Aviation and Troop Command (ATCOM)
* Communications and Electronics Command (CECOM)
* Missile Command (MICOM)
* Tank and Automotive Command (TACOM)
* Armament and Chemical Acquisition and Logistics Activity (ACALA)
* Army Materiel Command Mobilization (AMC-MOB)

Retail
* Forces Command (FORSCOM)
* Training and Doctrine Command (TRADOC)
* Army Material Command, Installation Division (AMC-ID)
* Defense Supply Service Washington (DSS-W)
* U.S. Army Europe (USAREUR)
* U.S. Army Pacific (USARPAC)
* U.S. Army Southern Command (USARSO)
* Eighth U.S. Army (USAEIGHT)

ARMY DEPOT MAINTENANCE

Depots
* Tooele Army Depot, Tooele, UT
  Satellites: Pueblo Depot Activity, Pueblo, CO
  Umatilla Depot Activity, Hermiston, OR
* Seneca Army Depot, Romulus, NY
* Anniston Army Depot, Anniston, AL
* Bluegrass Army Depot, Richmond, KY
* Sierra Army Depot, Herlong, CA
* Letterkenny Army Depot, Chambersburg, PA
  Satellite: Savanna Army Depot Activity, Savanna, IL
* Red River Army Depot, Texarkana, TX
* Sacramento Army Depot, Sacramento, CA (Scheduled for Closing)
* Tobyhanna Army Depot, Tobyhanna, PA
* Corpus Christi Army Depot, Corpus Christi, TX

Ordnance
* Pine Bluff Arsenal, Pine Bluff, AR
* Rock Island Arsenal, Rock Island, IL
* Watervliet Arsenal, Watervliet, NY
* McAlester Army Ammunition Plant, McAlester, OK
* Crane Army Ammunition Activity, Crane, IN

DEFENSE BUSINESS OPERATIONS FUND REPORTING ACTIVITIES
Key to Symbols

= DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

NAVY

NAVY SUPPLY MANAGEMENT
  Wholesale
    Navy Ships Parts Control Center, Mechanicsburg, PA
* Shipboard Consumables
* Shipboard Reparables
    Navy Aviation Supply Office, Philadelphia, PA
* Aviation Consumables
* Aviation Reparables
* Marine Corps Logistics Base, Albany, GA
* Amphibious Consumables
* Amphibious Reparables
  Retail
* Publications and Forms
* Ship Stores
* Shipyard Long Lead Material
* Non-Navy
* Retail
* Fuel
* Distribution Depots
    Fleet Industrial Supply Center, Pearl Harbor, HI
    Fleet Industrial Supply Depot, Yokosuka, Japan
    Fleet Industrial Supply Depot, Guam, M.I.

* NAVY LOGISTICS SUPPORT ACTIVITIES

NAVY DEPOT MAINTENANCE
Shipyards
* Philadelphia Naval Shipyard, Philadelphia, PA (Closing Sept 1995)
* Charleston Naval Shipyard, Charleston, SC (Closing August 1995)
* Norfolk Naval Shipyard, Portsmouth, VA
* Portsmouth Naval Shipyard, Kittery, ME
* Puget Sound Naval Shipyard, Bremerton, WA
* Long Beach Naval Shipyard, Long Beach, CA
* Mare Island Naval Shipyard, Vallejo, CA (Closing by 1995)
* Pearl Harbor Naval Shipyard, Pearl Harbor, HI
# Aviation
* Naval Aviation Depot, Alameda, CA (Closing September 1996)
* Naval Aviation Depot, North Island, CA (Closing September 1995)
* Naval Aviation Depot, Norfolk, VA (Closing September 1996)
* Naval Aviation Depot, Cherry Point, NC
* Naval Aviation Depot, Jacksonville, FL
* Naval Aviation Depot, Pensacola, FL
# Ordnance
* Naval Warfare Assessment Division, Corona, CA
* Inventory Management and Systems Division, Mechanicsburg, PA
* Naval Ordnance Center, Indian Head, MD

= DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

NAVY DEPOT MAINTENANCE (Continued)

Atlantic Division

* Naval Weapons Station, Yorktown, VA
* Naval Weapons Station, Earle, Colts Neck, NJ
* Naval Weapons Station, Charleston, SC

Pacific Division

* Naval Weapons Station, Seal Beach, CA
* Naval Weapons Station, Concord, CA

Marine Corps Bases

* Marine Corps Logistics Base, Albany, GA
* Marine Corps Logistics Base, Barstow, CA

NAVY BASE SUPPORT

* Public Works Center, Great Lakes, IL
* Public Works Center, Agana, Guam, Marianas Islands
* Public Works Center, Jacksonville, FL
* Public Works Center, Norfolk, VA
* Public Works Center, Pearl Harbor, HI
* Public Works Center, Pensacola, FL
* Public Works Center, San Diego, CA
* Public Works Center, Oakland, CA
* Public Works Center, Washington, DC
* Public Works Center, Yokosuka, Japan

NAVY RESEARCH & DEVELOPMENT

Air Warfare Centers (NAWC)

* NAWC, Aircraft Division, Lakehurst, NJ
* NAWC, Aircraft Division, Indianapolis, IN
* NAWC, Aircraft Division, Patuxent River, MD (MRTFB)
* NAWC, Aircraft Division, Trenton, NJ (MRTFB)
* NAWC, Aircraft Division, Warminster, PA
* NAWC, Weapons Division, China Lake, CA (MRTFB)
* Satellite: Naval Ordnance Test Center, White Sands, NM
* NAWC, Weapons Division, Point Mugu, CA (MRTFB)

Surface Warfare Centers

* Dahlgren Division
  - NSWC, Dahlgren, VA
  - NSWC Detachment, White Oak, MD
  - NSWC Detachment, Wallops Island, VA
  - NSWC Detachment, Fort Monroe, VA
  - NSWC Coastal Systems Division, Panama City, FL
  - Naval Mine Warfare Engineering Activity, Yorktown, VA
* Carderock Division
  - Carderock, MD
  - Annapolis, MD
  - Philadelphia, PA

= DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

NAVY RESEARCH & DEVELOPMENT (Continued)

* Indian Head Division, Indian Head, MD
  - NSWC, Indian Head Division, Indian Head, MD
  - NSWC Detachment, White Oak, MD
  - NSWC Detachment, Yorktown, VA
  - NSWC Detachment, McAlester, OK
* Crane Division
  - NSWC, Crane, IN
  - NSWC Detachment, Louisville, KY
* Port Hueneme Division
  - NSWC, Port Hueneme, CA
  - Fleet Combat Direction Systems Support Activity, Dam Neck, VA
  - Integrated Combat Systems Test Facility, San Diego, CA

<u>Undersea Warfare Centers</u>

* Newport Division
  - NUWC Division, Newport, RI
  - NUWC Detachment, Norfolk, VA
  - NUWC Detachment, New London, CT
  - NUWC Detachment, Atlantic Undersea Test and Evaluation Center, Andros Island, Bahamas (MRTFB)
* Keyport Division, Keyport, WA
  - NUWC Division, Keyport, WA
  - NUWC Detachment, Lualualei, HI
  - NUWC Detachment, San Diego, CA
  - NUWC Detachment, Hawthorne, NV

<u>Naval Command, Control and Ocean Surveillance Systems Centers</u>

* NCCOSC, San Diego, CA
* NCCOSC, St Inigoes, MD
* NCCOSC, Charleston, SC
* NCCOSC, Portsmouth, VA
* NCCOSC, Washington, DC

* <u>Research Laboratory</u>
  - Naval Research Laboratory, Washington, DC
  - NRL Chesapeake Bay Field Site, Chesapeake Bay, MD
  - NRL Flight Support Detachment, Lexington Park, MD
  - NRL Underwater Sound Reference Detachment, Orlando, FL
  - NRL Monterey Field Site, Monterey, CA
  - NRL Stennis Space Center Detachment, Bay St. Louis, MS

<u>Naval Facilities Engineering Services Center</u>

* Naval Facilities Engineering Services Center, Port Hueneme, CA

* DEFENSE PRINTING SERVICE
  - Defense Printing Service, Washington, DC
    (Consists of 265 centers worldwide ranging from one person facilities to full service printing plants)

DEFENSE BUSINESS OPERATIONS FUND REPORTING ACTIVITIES
Key to Symbols

= DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

NAVY INFORMATION SERVICES
* Navy Computer and Telecommunications Area Master Stations (NCTAMS)
    NCTAMS, Norfolk, VA

NAVY INFORMATION SERVICES (Continued)
    NCTAMS, Pearl Harbor, HI
* Navy Computer and Telecommunications Stations (NAVCOMTELSTA)
    NAVCOMTELSTA, Pensacola, FL
    NAVCOMTELSTA, Jacksonville, FL
    NAVCOMTELSTA, Washington, DC
    NAVCOMTELSTA, Newport, RI
    NAVCOMTELSTA, San Francisco, CA
    NAVCOMTELSTA, San Diego, CA
    NAVCOMTELSTA, New Orleans, LA

DEFENSE BUSINESS OPERATIONS FUND REPORTING ACTIVITIES
Key to Symbols

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AIR FORCE

AIR FORCE SUPPLY MANAGEMENT

* Medical-Dental Division: Air Force Medical Materiel Field Office, Frederick, MD
* Fuels Division: Air Force Logistics Center, San Antonio, TX
* Academy Cadet Store: U.S. Air Force Academy, Colorado Springs, CO
* General Support Division: HQ, Air Force Logistics Command, Wright-Patterson AFB, Dayton, OH
* Systems Support Division: HQ, Air Force Logistics Command, Wright-Patterson AFB, Dayton, OH
* Reparables Support Division: HQ, Air Force Logistics Command, Wright-Patterson AFB, Dayton, OH
* Cost of Operations Division: HQ, Air Force Logistics Command, Wright-Patterson AFB, Dayton, OH

AIR FORCE DEPOT MAINTENANCE

* Warner Robins Air Logistics Center, Robins Air Force Base, Warner Robins, GA
  Satellite: Air Force Logistics Command Support Center Europe, Royal AF Kemble, UK
* Ogden Air Logistics Center, Hill Air Force Base, Odgen, UT
  Satellite: Air Force Logistics Command Support Center Pacific, Kadena AB, JA
* Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma City, OK
* Sacramento Air Logistics Center, McClellan Air Force Base, Sacramento, CA
* San Antonio Air Logistics Center, Kelly Air Force Base, San Antonio, TX
* Aerospace Guidance and Metrology Center, Newark Air Force Base, Newark, OH
  (Scheduled for Closure in FY 1996)
* Aerospace Maintenance & Regeneration Center, Davis-Monthan Air Force Base, Tucson, AZ

DEFENSE BUSINESS OPERATIONS FUND REPORTING ACTIVITIES
Key to Symbols

= DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

DEFENSE LOGISTICS AGENCY

SUPPLY MANAGEMENT
* Defense Personnel Support Center (DPSC), Philadelphia, PA
  - Clothing and Textiles Directorate
  - Medical Directorate
  - Subsistence Directorate
* Defense General Supply Center (DGSC), Richmond, VA
* Defense Industrial Supply Center (DISC), Philadelphia, PA
* Defense Construction Supply Center (DCSC), Columbus, OH
* Defense Electronics Supply Center (DESC), Dayton, OH
* Defense Fuels Supply Center (DFSC), Alexandria, VA

DISTRIBUTION DEPOTS
* Defense Distribution Region East, New Cumberland, PA
* Defense Distribution Region West, Stockton, CA

REUTILIZATION AND MARKETING SERVICE
* Defense Reutilization and Marketing Service, Battle Creek, MI
* Defense Reutilization and Marketing Operations-East, Columbus, OH
* Defense Reutilization and Marketing Operations-West, Ogden, UT

* INDUSTRIAL PLANT EQUIPMENT CENTER
  Mechanicsburg, PA

* JOINT LOGISTICS SYSTEMS CENTER

Joint Logistics Systems Center, Dayton, OH
Management Systems Support Office
Procurement Corporate Information Management

DEFENSE INFORMATION SERVICE AGENCY

* Communications Information Services Activity (CISA)
* Defense Information Service Organization (DISO)

* DEFENSE FINANCE AND ACCOUNTING SERVICE

DFAS-Headquarters, Arlington, VA
DFAS-Cleveland Regional Center, Cleveland, OH
DFAS-Columbus Regional Center, Columbus, OH
DFAS-Denver Regional Center, Denver, CO
DFAS-Indianapolis Regional Center, Indianapolis, IN
DFAS-Kansas City Regional Center, Kansas City, MO
DFAS-Financial Systems Offices

DEFENSE BUSINESS OPERATIONS FUND REPORTING ACTIVITIES
Key to Symbols

§ = DBOF Consolidation Point

* = DBOF Financial Reporting (AR1307) Entity

§ DEFENSE COMMISSARY AGENCY

* Resale
* Operations

§ UNITED STATES TRANSPORTATION COMMAND

* <u>Army Transportation Activities</u>
  - Military Traffic Management Command, Eastern Area
  - Military Ocean Terminal, Bayonne, NJ
  - Military Ocean Terminal, Sunny Point, NC
  - Military Traffic Management Command, Western Area
  - Military Ocean Terminal, Bay Area, Oakland, CA
  - Military Traffic Management Command, Transportation Engineering Agency, Newport News, VA
  - Military Traffic Management Command,Transportation, Terminal Command, Europe; Rotterdam, Netherlands

* <u>Navy Transportation Activities</u>
  - Military Sealift Command, Washington, DC
    - MSC Central Technical Activity, Washington, DC
    - MSC, Atlantic, Bayonne, NJ
    - MSC, Pacific, Oakland, CA
    - MSC, Europe, London, UK
    - MSC, Yokohoma, Japan

* <u>Air Force Transportation Activities</u>
  - Air Mobility Command, Scott AFB, IL

* Defense Courier Service, Ft Meade, MD

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION II

FORMAT OF THE STATEMENT OF FINANCIAL POSITION

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF FINANCIAL POSITION
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING_______________, 19___

	($000)	($000)
ASSETS		
1. Fund Balance with Treasury (Note 1)		$ xxx
a. Funds Collected-Operating Program	$ xxx	
b. Funds Collected-Capital Program	$ xxx	
c. Funds Disbursed-Operating Program	($ xxx)	
d. Funds Disbursed-Capital Program	($ xxx)	
e. Funds With Treasury-Operating Program	$ xxx	
f. Funds With Treasury-Capital Program	$ xxx	
2. Cash on Hand and Other Monetary Assets	$ xxx	
3. Accounts Receivable, Net		$ xxx
4. Advances and Prepayments		$ xxx
5. Inventory Held for Sale, Net		$ xxx
a. Inventory Items	$ xxx	
b. Allowance for (Gain) or Loss on Inventories	($ xxx)	
6. Work In Process	$ xxx	
7. Operating Materials and Supplies, Net		$ xxx
8. Stockpile Materials, Net		$ xxx
9. Property and Equipment, Net		$ xxx
a. Structures, Facilities & Leasehold Improvements, Net	$ xxx	
b. Equipment, Net	$ xxx	
c. ADP Software, Net	$ xxx	
d. Assets Under Capital Lease, Net	$ xxx	
e. Construction in Progress	$ xxx	
f. Other Property	$ xxx	
10. Other DBOF Assets		$ xxx
11. Total DBOF Assets		$x,xxx
LIABILITIES		
12. Liabilities Covered by Budgetary Resources:		
a. Accounts Payable		$ xxx
b. Accrued Payroll and Benefits		$ xxx
(1) Salaries and Wages	$ xxx	
(2) Accrued Annual Leave	$ xxx	
(3) Severance Pay and Separation Allowance	$ xxx	
c. Progress Billings		$ xxx
d. Debt		$ xxx
e. Interest Payable		$ xxx
f. Lease Liabilities		$ xxx
g. Other Liabilities		$ xxx
h. Total Liabilities Covered by Budgetary Resources		$x,xxx

13.	Liabilities Not Covered by Budgetary Resources		$ xxx
14.	Total Liabilities		$x,xxx

NET POSITION

15.	Balances:		
	a. Unexpended Appropriations		$ xxx
	b. Invested Capital		$ xxx
	(1) Assets Capitalized	$ xxx	
	(2) Liabilities Assumed	$ xxx	
	(3) Fund (Cash) Transfers	$ xxx	
	(4) Transfers In of Property	$ xxx	
	(5) Transfers Out of Property	($ xxx)	
	c. Cumulative Results of Operations		$ xxx
	d. Other		$ xxx
	e. Future Funding Requirements		($ xxx)
	f. Total Net Position		$ xxx
16.	Total Liabilities and Net Position		$x,xxx

The accompanying notes are an integral part of these statements.

NOTES

Note 1. Fund Balances With Treasury

	Obligated	Unobligated		Total
		Available	Restricted	
1. DBOF Account (97X4930)	$ xxx	$ xxx	$ xxx	$ xxx
2. Appropriated Funds	$ xxx	$ xxx	$ xxx	$ xxx
3. Other Funds (Specify)	$ xxx	$ xxx	$ xxx	$ xxx
Total	$ xxx	$ xxx	$ xxx	$ xxx

Note 2. Preparer Information. Provide the following information:

Preparer's Name: Telephone No: (Commercial)
(Autovon)

Supervisor's Name: Telephone No: (Commercial)
(Autovon)

Address:

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION II

INSTRUCTIONS FOR THE PREPARATION OF THE STATEMENT OF FINANCIAL POSITION

A. General. The Statement of Financial Position discloses the reporting entity's assets, liabilities, and net position.

B. Heading. Complete the heading on the form to indicate; (a) the reporting DoD Component, (b) the reporting DBOF business area or activity, (c) the reporting period (month), and (d) the calendar year.

C. Line Item Instructions. Instructions for the content of each line are:

1. Line 1 - Fund Balance with Treasury. This item represents the aggregate amount of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. (This line should not include account balances, such as those in deposit, suspense, and clearing accounts, that are not available to finance the entity's activities.) Accounts have been established to separately identify collections applicable to the operating program and capital program to comply with section 342 of the National Defense Authorization Act For Fiscal Year 1993, which requires DoD to establish a capital asset subaccount. Disclosure should be made in note 1 to distinguish between (a) the obligated balance not yet disbursed, and (b) the unobligated balance. Report the balance by the specified applicable categories:

2. Line 1.a. - Funds Collected-Operating Program. Report the balance of the following account:

1011.1 Funds Collected - Operating Program - DBOF

NOTE: All cash inflows shall be initially recorded to the above account. Periodically, but at least monthly prior to financial statement preparation, the applicable amount (see below) shall be transferred from general ledger account 1011.1, "Funds Collected - Operating Program," to general ledger account 1011.2, "Funds Collected - Capital Program."

3. Line 1.b. - Funds Collected-Capital Program. Report the balance of the following accounts:

1011.2 Funds Collected - Capital Program - DBOF

NOTE: All cash inflows shall be initially recorded to account 1011.1, "Funds Collected - Operating Program." Periodically, but at least monthly prior to financial statement preparation, the applicable amount shall be transferred from general ledger

account 1011.1, "Funds Collected - Operating Program," to general ledger account 1011.2, "Funds Collected - Capital Program."

The preferred method to transfer collections to account 1011.2 is on a transaction basis. The transfer, however, may be made on a time basis (daily, weekly, etc.). The transfer must, however, be made at least monthly prior to financial statement preparation. The amount to be transferred to account 1011.2 shall be computed by first determining, at each DBOF activity, the percentage of the stabilized billing rate that is added to fund the Capital Investment Program within that activity's business area. (Stabilized billing rates should, in addition to recovering operating costs, also include a factor to fund the Capital Investment Program. That factor is composed of the expected depreciation expense and, if applicable, any additional capital surcharge. Since stabilized billing rates should not change during the fiscal year, the percentage allocation between the operating and capital program cash collection accounts should not change during the fiscal year.) The resulting ratio is then applied to the monthly change in funds collected at that activity. The percentage is applied to all collections received that fiscal year, even though, for some collections, the revenue was generated in the prior fiscal year. For example, assume that at Activity X the stabilized billing rate is $100 of which $5 is to fund the Capital Investment Program. The resulting percentage is therefore 5 percent ($5 divided by $100 = 5%). Each dollar of collections results in a $0.95 (95¢) increase to account 1011.1, "Funds Collected - Operating Program," and a $0.05 (5¢) increase to account 1011.2, "Funds Collected - Capital Program."

At our illustrative Activity X, the cash collections for this month were $3.5 million. The usual entry to record a cash collection is as follows:

Dr 1011.1	Funds Collected - Operating Program	$3,500,000	
Cr 1311	Accounts Receivable - Government - Current		$3,500,000

Computation of 5 percent of the cash collections for the month yields $175,000. The entry to transfer $175,000 between the cash accounts is:

Dr 1011.2	Funds Collected - Capital Program	$175,000	
Cr 1011.1	Funds Collected - Operating Program		$175,000

4. Line 1.c. - Funds Disbursed-Operating Program. Report the balance of the following account:

1012.1 Funds Disbursed - Operating Program - DBOF

NOTE: Account 1012.1, "Funds Disbursed - Operating Program- DBOF," is used to record cash outflows that occurred due to activity attributable to the DBOF operating program (vice capital program).

5. Line 1.d. - Funds Disbursed-Capital Program. Report the balance of the following account:

1012.2 Funds Disbursed - Capital Program - DBOF

NOTE: Account 1012.2, "Funds Disbursed - Capital Program - DBOF," is used to record cash outflows that occurred due to activity attributable to the DBOF capital program (vice operating program).

The amount recorded to account 1011.2 shall be equal to capital program outlay amounts reported in Part VI, "Capital Investment Program," of the Statement of Operations.

6. Line 1.e. - Funds With Treasury-Operating Program. Report the balance of the following account:

1013.1 Funds With Treasury - Operating Program - DBOF

7. Line 1.f. - Funds With Treasury-Capital Program. Report the balance of the following account:

1013.2 Funds With Treasury - Capital Program - DBOF

Account series 1014, "Undistributed Collections," and Account series 1015, "Undistributed Disbursements," are not included in the above listing as these two accounts should have a $0 balance for financial report preparation.

8. Line 2 - Cash on Hand and Other Monetary Assets. Consists of (a) coins, paper currency and readily negotiable instruments such as money orders, checks and bank drafts on hand or in transit for deposit, (b) amounts on demand deposit with banks or other financial institutions, and (c) cash held in imprest funds. Report the balance of the following accounts:

1110 Undeposited Collections
1120 Imprest Funds
1191 Disbursing Officers' Cash
1195 Other Monetary Assets

9. Line 3. - Accounts Receivable, Net. Accounts receivable are amounts that a federal entity claims for payment from other entities. Report the balance of the following accounts:

1311 Accounts Receivable - Government - Current
1312 Accounts Receivable - Government - Noncurrent
1313 Accounts Receivable - Public - Current
1314 Accounts Receivable - Public - Noncurrent
1315 Refunds Receivable - Government
1316 Refunds Receivable - Public
* 1319.1 Allowance for Loss on Accounts Receivable - Government *
* 1319.2 Allowance for Loss on Accounts Receivable - Public *
1320 Claims Receivable - Public

10. Line 4. - Advances and Prepayments. Report the balance of the following accounts:

1411 Travel Advances
1412 Advances to Contractors and Suppliers
1414 Advances - All Others - Public
1415 Advances to Government Agencies and Funds
1451 Prepaid Expenses (Non-Federal)
1452 Progress payments Made to Others (Non-Federal)

11. Line 5. - Inventories Held for Sale, Net. Inventory is tangible personal property that is (i) held for sale, (ii) in the process of production for sale, or (iii) to be consumed in the production of goods for sale or in the provision of services for a fee. This line applies only to the Supply Management business area and the Defense Commissary Agency.

12. Line 5.a. - Inventory Items. Report the balance of the following accounts:

* 1521 Inventory Held for Sale
* 1521.1 Inventory in Transit from Procurement
* 1521.2 Inventory in Transit from DoD Activities
* 1522 Inventory Held in Reserve for Future Sale
* 1523 Inventory Held for Repair
* 1523.1 Exchange (DLR) Inventory in Transit
* 1524 Inventory - Excess, Obsolete, and Unserviceable

13. Line 5.b. - Allowance for Unrealized (Gain)/Loss on Inventories. Report the balance of the following accounts (a net credit balance will be reported as a negative [deduct] amount; a net debit balance will be reported as a positive [add] amount):

* 1529.1 Allowance for Unrealized Holding Gain/Loss - Inventory Held for Sale (Including Subaccounts)
* 1529.2 Allowance for Unrealized Holding Gain/Loss - Inventory Held in Reserve for Future Sale
* 1529.3 Allowance for Repairs

14. Line 6. - Work In Process. Work in process is, for the DBOF, the amount of direct, indirect, and general and administrative (G&A) costs assigned or otherwise properly allocated to a final cost objective (generally, a job order) prior to completion of that final cost objective in its entirety or in discrete elements. When revenue is recognized on a percent of completion basis, the work in process associated with the revenue recognized should be relieved

from work in process and recorded as cost of goods sold. This line applies only to DBOF activities, such as those within the Depot Maintenance business area, that accumulate costs to a final cost objective (generally, a job order). This line does not ordinarily apply to activities that do not accumulate costs to a final cost objective such as, for example, the Supply Management business area or the Defense Commissary Agency. The balances in the following accounts shall be reported:

1581	Work in Process - In House
1582	Work in Process - Contractor
1583	Work in Process - Other Government Activities
1584	Work in Process - Government-Furnished Material

15. Line 7. - Operating Materials and Supplies. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. This line applies to all DBOF activities since all DBOF activities, including those in the Supply Management business area and the Defense Commissary Agency can have operating materials and supplies. Report the balance of the following accounts:

1511	Operating Materials and Supplies Held for Use
1512	Operating Materials and Supplies Held in Reserve for Future Use
1513	Operating Materials and Supplies - Excess, Obsolete, and Unserviceable
1514	Operating Materials and Supplies in Transit

16. Line 8. - Stockpile Materials, Net. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. Report the balance in the following accounts:

1573	War Reserve/Mobilization Stock
1579.2	Allowance for Holding Gain/Loss - War Reserve/Mobilization Stock

17. Line 9. - Property and Equipment. The amount of real and personal property, i.e., land, structures and facilities, construction in progress, purchased and self-developed software, equipment and related improvements that has been capitalized, net of accumulated depreciation, if any. Also includes assets acquired by capital leases and leasehold improvements; and property owned by the reporting entity in the hands of the reporting entity or contractors.

18. Line 9.a. - Structures, Facilities & Leasehold Improvements, Net. Report the balance of the following accounts:

1730	Buildings
1739	Accumulated Depreciation on Buildings
1740	Other Structures and Facilities
1749	Accumulated Depreciation on Other Structures and Facilities
1820	Leasehold Improvements
1829	Accumulated Amortization on Leasehold Improvements

19. Line 9.b. - Equipment, Net. Report the balance of the following accounts:

1750 Equipment
1759 Accumulated Depreciation on Equipment
1761 Industrial Property in Layaway
1762 Equipment in Use
1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others
1764 Equipment on Loan
1765 Property Awaiting Disposal
1769 Accumulated Depreciation on Military Equipment
1770 Equipment in Transit

20. Line 9.c. - ADP Software, Net. Report the balance of the following accounts:

1830 Automated Data Processing Software
1839 Accumulated Amortization on Automated Data Processing Software

21. Line 9.d. - Assets Under Capital Lease, Net. Report the balance of the following accounts:

1810 Assets Under Capital Lease
1819 Accumulated Depreciation on Assets under Capital Lease

22. Line 9.e. - Construction in Process. Report the balance of the following accounts:

1721 Construction in Progress - In-House
1722 Construction in Progress - Contractor
1723 Construction in Progress - Other Government Activities
1724 Construction in Progress - Government-Furnished Material

23. Line 9.f. - Other Property. Report the balance of the following accounts:

1840 Other Natural Resources
1849 Allowance for Depletion
1850 Property Held for Sale
1991 Intangible Assets
1992 Accumulated Amortization on Intangible Assets

24. Line 10. - Other DBOF Assets. Report the balance of the following account:

1766 Equipment Not in Use

25. Line 11. - Total DBOF Assets. Report the net total of line 1. through line 10.

26. Line 12. - Liabilities Covered by Budgetary Resources. Liabilities incurred which are covered by available budgetary resources. Available budgetary resources include (1) new budget authority, (2) reimbursements and

other income, (3) recoveries of unexpired budget authority, and (4) remaining unobligated balances of amounts available at the beginning of the year or transferred in during the year.

27. Line 12.a. - Accounts Payable. The amounts owed by a DBOF activity for goods and services received from, progress in contract performance made by, and rents due to DoD and other federal and non-federal entities. Report the balance of the following accounts:

2111 Accounts Payable - Government - Current
2112 Accounts Payable - Government - Noncurrent
2113 Accounts Payable - Public - Current
2114 Accounts Payable - Public - Noncurrent
2115 Claims Payable
2120 Disbursements in Transit
2190 Other Accrued Liabilities

28. Line 12.b. - Accrued Payroll and Benefits. Report the total balance by specified category of the following accounts:

(1) Salaries and Wages

2211 Accrued Payroll - Civilian
2213 Accrued Payroll - Civilian - Employer Share of Fringe Benefits

(2) Accrued Annual Leave

2215 Accrued Payroll - Funded Annual Leave - Civilian

(3) Severance Pay and Separation Allowance

2993 Accrued Civilian Severance Pay

29. Line 12.c. - Less: Progress Billings. Report the balance of the following account:

2994 Progress Billings to Others

30. Line 12.d. - Debt. This item represents the amount of borrowings from the Treasury, the Federal Financing Bank, or other federal agencies. [This line applies only to the Military Sealift Command.]

31. Line 12.e. - Interest Payable. This item represents the amount of interest expense incurred but unpaid on debt owed to nonfederal entities. Report the balance of the following account as it applies to amounts owed to nonfederal entities:

2140 Accrued Interest Payable

32. Line 12.f. - Lease Liabilities. This item represents the portion of the liability for capital leases which is covered by budgetary authority. (Capital leases and lease purchases entered into during FY 1992 and thereafter

must be fully funded in the first year of the lease, see Appendix B of OMB Circular A-11). Report the balance of the following account:

* 2940 Capital Lease Liability

* 33. Line 12.g. - Other Liabilities. This item represents other liabilities that are not recognized in specific categories. Include in this line the total amount due the federal entities for other liabilities covered by budgetary authority that are not included on other lines above. This includes advances and prepayments received from other federal entities for goods to be delivered or services to be performed. Report the balance of the following accounts as they apply to transactions with other federal and non-federal entities: *

2130 Contract Holdbacks
2190 Other Accrued Liabilities
2311 Unearned Revenues - Advances from Government Agencies and Funds
2312 Unearned Revenue - Advances from the Public
2410 Treasury Cash Advances to Disbursing Officers
2411 Deposit Fund Liabilities
2920 Contingent Liabilities
2992 Liability for Property Furnished by Others

34. Line 12.h. - Total Liabilities Covered by Budgetary Resources. Sum of lines 12.a. through 12.g.

35. Line 13. - Liabilities Not Covered by Budgetary Resources. Liabilities incurred which are not covered by available budgetary resources result from the receipt of goods or services or the occurrence of other eligible events for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity. Notwithstanding an expectation that the appropriations will be made, whether they in fact will be made is completely at the discretion of the Congress. This line should not ordinarily apply to the Defense Business Operations Fund. If, however, liabilities exist that are not covered by available budgetary resources, then report only the amount of the liability for which an available budgetary resource does not exist. If any such liabilities exist, report the amount and disclose its nature by footnote.

36. Line 14 - Total Liabilities. Report the total of lines 3.h. and 4.

37. Line 15 - Balances. The components of net position are classified as follows:

38. Line 15.a. - Unexpended Appropriations. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. Report the balance of the following accounts:

3100 Appropriated Capital
3211.1 Appropriations Available

39. Line 15.b. - Invested Capital. Represents the net investment of the federal government in the reporting entity. Includes the acquisition cost of capitalized assets, additional investment in a revolving fund to commence

operations or begin a new activity; fund (cash) transfers to other DBOF entities; less the reduction in investment due to depreciation and amortization. Report the balance by the specified category of the following accounts:

(1) Assets Capitalized:

3211.2 Assets Capitalized

(2) Liabilities Assumed:

3211.3 Liabilities Assumed

* (3) Fund (Cash) Transfers: *

* 3211.4 Net Treasury Balance - DBOF *

(4) Transfers In Of Property:

3220 Transfers In from Others Without Reimbursement

(5) Transfers Out Of Property:

3231 Transfers Out to Government Agencies Without Reimbursement
3232 Transfers Out to All Others Without Reimbursement

40. Line 15.c. - Cumulative Results of Operations. The net difference between (1) expenses and losses and (2) financing sources, including appropriated capital used, revenues, and gains, since the inception of the activity. Report the balance of the following account.

3311 Cumulative Results of Operations - DBOF

41. Line 15.d. - Other. Report the balance of any other equity account in use by the reporting entity.

42. Line 15.e. - Future Funding Requirements. The amount reported on this line should be equal to the amount of liabilities incurred which are not covered by available budgetary resources (line 3.c.). Liabilities not covered by budgetary resources result from the receipt of goods or services or the occurrence of other eligible events for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity. If an amount is reported, disclose its nature by footnote.

43. Line 15.f. - Total Net Position. Report the sum of line 15.a. through line 15.e.

44. Line 16. - Total Liabilities and Net Position. Report the sum of line 14 and line 15.f.

45. INSTRUCTIONS FOR PREPARATION OF REQUIRED NOTES. Instructions for required notes are presented below. Additional notes may be included as deemed beneficial by the reporting entity. In any instance where the instructions for

line items shown on the Statement of Financial Position would preclude significant financial data from being reported, include the amounts in the most closely related line item and disclose the information by a footnote. The following information must be disclosed:

Note 1 - Fund Balances With Treasury:

The sum of the balances should agree with the amount reported on line 1.of the Statement of Financial Position. For Defense Business Operations Fund activities, the amounts reported will reflect the net amount of (1) collections in excess of disbursements for the fiscal year or (2) disbursements in excess of collections for the fiscal year added to [if collections exceed disbursements]
* or subtracted from [if disbursements exceed collections] (3) Funds With Treasury *
* carried over from the previous fiscal year. If the reporting entity does not *
* maintain an account representing "Funds With Treasury," then that entity need *
* not report an amount for that line. The DBOF entity that does, however, main *
* tain an account representing "Funds With Treasury," must report that balance. *
* If one DBOF entity maintains the "Funds With Treasury" for two or more other *
* DBOF activities, that balance may be distributed for reporting purposes to *
* those individual DBOF activities. *

The amount to be reported consists of all (1) obligated but not yet disbursed and (2) unobligated undisbursed account balances with the U.S. Treasury, as reflected in the entity's records and summarized by fund type. Unobligated amounts shall be further classified as amounts available and restricted. Restricted unobligated fund balances include appropriated fund amounts related to expired authority, and holdings which have not been transferred into the general fund as of the report date, which are not available for agency use. Line (3), Other Funds, should include trust funds and balances in deposit, suspense, clearing and related non-spending accounts, such as for collections pending litigation, awaiting determination of the proper accounting disposition, or being held by the entity in the capacity of a banker or agent for others.

Note 2. Preparer Information.

The preparer's and supervisor's name and business telephone numbers shall be provided along with the official mailing address of their location. The purpose of the requested information is to provide a point of contact in case of questions. If a point of contact other than the preparer, or preparer's supervisor, is desired, also include the name, title, business telephone, and (if different) the location of the desired point of contact.

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION III

FORMAT OF THE STATEMENT OF CASH FLOWS

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF CASH FLOWS
(INDIRECT METHOD)
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING ______________, 19____

	($000)
CASH FLOWS FROM OPERATIONS:	
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$ xxx
ADJUSTMENTS AFFECTING CASH FLOW:	
2. Appropriated Capital Used	$(xxx)
3. Decrease (Increase) in Accounts Receivable	$ xxx
4. Decrease (Increase) in Other Assets	$ xxx
5. Increase (Decrease) in Accounts Payable	$ xxx
6. Increase (Decrease) in Other Liabilities	$ xxx
7. Depreciation and Amortization	$ xxx
8. Other Unfunded Expenses	$ xxx
9. Other Adjustments	$ xxx
10. Total Adjustments	$ xxx
11. Net Cash Provided (Used) by Operations	$ xxx
CASH FLOWS FROM INVESTMENTS:	
12. Sale of Property, Plant and Equipment	$ xxx
13. Purchase of Property, Plant and Equipment	$(xxx)
14. Other Investment Cash Provided (Used)	$ xxx
15. Net Cash Provided (Used) by Investments	$ xxx
CASH FLOWS FROM APPROPRIATIONS:	
16. Appropriations (Current Warrants)	$ xxx
17. Add:	
a. Restorations	$ xxx
b. Transfers of Cash from Others	$ xxx
18. Deduct:	
a. Withdrawals	$(xxx)
b. Transfers of Cash to Others	$(xxx)
19. Net Appropriations	$ xxx
20. Repayments on Loans from the Treasury and the Federal Financing Bank	$ xxx
21. Net Cash Provided (Used) by Appropriations	$ xxx

22. Net Cash Provided (Used) by Operations, Investments and Appropriations	$ xxx
23. Fund Balance, Beginning	$ xxx
24. Fund Balance, Ending	$ xxx

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

25. Total Interest Paid	$ xxx

SUPPLEMENTAL SCHEDULE OF APPROPRIATIONS AND INVESTMENTS:

26. Property and Equipment Acquired Under Capital Lease Obligations	$ xxx
27. Property Acquired Under Long-term Financing Arrangements	$ xxx
28. Other Exchanges of Noncash Assets or Liabilities	$ xxx

SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION:

29. Funds Collected	
a. Funds Collected - Operating Program - DBOF	$ xxx
b. Funds Collected - Capital Program - DBOF	$ xxx
c. Funds Collected - Undistributed - DBOF	$ xxx
30. Funds Disbursed	
a. Funds Disbursed - Operating Program - DBOF	$ xxx
b. Funds Disbursed - Capital Program - DBOF	$ xxx
c. Funds Disbursed - Undistributed - DBOF	$ xxx
31. Cash on Hand and Other Monetary Assets	$ xxx
32. Funds with Treasury	
a. Funds with Treasury - Operating Program - DBOF	$ xxx
b. Funds with Treasury - Capital Program - DBOF	$ xxx
33. Undistributed Collections (As appropriate)	
a. Undistributed Collections - DBOF Component Level	$ xxx
b. Undistributed Collections - DBOF Business Area Level	$ xxx
c. Undistributed Collections - DBOF Installation Level	$ xxx
34. Undistributed Disbursements (As appropriate)	
a. Undistributed Disbursements - DBOF Component Level	$ xxx
b. Undistributed Disbursements - DBOF Business Area Level	$ xxx
c. Undistributed Disbursements - DBOF Installation Level	$ xxx

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION III

INSTRUCTIONS FOR THE PREPARATION OF THE
STATEMENT OF CASH FLOWS
(INDIRECT METHOD)

A. General. The statement of cash flows discloses the DBOF cash receipts and disbursements with an explanation of the changes in cash or cash equivalents for the reporting period.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area or activity, and (c) the reporting period (month and calendar year).

C. Line Item Instructions. Instructions for the content of each line item are as follows:

CASH FLOWS FROM OPERATIONS:

1. Line 1 - Excess (Shortage) of Revenues and Financing Sources Over Total Expenses. The amount reported on line 13. of the monthly Statement of Operations (and changes in net position). As of September 30 each year, this line should agree with Line 1 on the annual Chief Financial Officers, Statement of Cash Flows (Indirect Method).

ADJUSTMENTS AFFECTING CASH FLOW:

2. Line 2 - Appropriated Capital Used. The amount reported on line 1 of the Statement of Operations (and changes in net position) should be reported as a negative adjustment to the net cash flow from operations.

5700 - Appropriated Capital Used

3. Line 3 - Decrease (Increase) in Accounts Receivable. A decrease in accounts receivable adds to, and an increase in accounts receivable reduces, the DBOF cash balance. (Do not include decreases due to bad debt writeoffs.) *

1300 - Receivables, Net

4. Line 4 - Decrease (Increase) in Other Assets. The change in other assets categories which affect cash flow. A decrease adds to, and an increase reduces, the DBOF cash balance.

1410 - Advances to Others
1450 - Prepayments
1990 - Other Assets, as applicable.

5. Line 5 - Increase (Decrease) in Accounts Payable. An increase in accounts payable adds to, and a decrease in accounts payable reduces the DBOF cash balance.

2100 - Accrued Liabilities - Other

6. Line 6 - Increase (Decrease) in Other Liabilities. The change in other liabilities which affect cash flow. An increase adds to, and a decrease reduces the DBOF cash balance.

2200 - Accrued Liabilities - Payroll and Benefits
2300 - Unearned Revenue - Advances
2400 - Liabilities for Deposit Funds and Suspense Accounts
2900 - Other Liabilities

7. Line 7 - Depreciation and Amortization. The depreciation and amortization for the period which are not paid in cash, and therefore require a positive adjustment to the net cash flow from operations.

6125 - Depreciation of Equipment
6126 - Depreciation of Real Property
6128 - Amortization of Leasehold Improvements and Other Tangible Assets

8. Line 8 - Other Unfunded Expenses. Other unfunded expenses which are not paid in cash and therefore require a positive adjustment to the net cash flow from operations. Identify the nature of each unfunded amount.

9. Line 9 - Other Adjustments. The net of the period's cash transfer transactions not shown on the Statement of Operation. These are Treasury Withdrawals, Transfers-In and Transfers-Out. This line should not include transfers in or out of non-cash assets such as property, operating supplies and materials, or inventory. The DBOF cash balance is not affected by transfers in or transfers out of non-cash assets to other federal entities.

10. Line 10 - Total Adjustments. The sum of lines 2. through 9.

11. Line 11 - Net Cash Provided (Used) by Operations. The total of lines 1. and 10.

CASH FLOWS FROM INVESTMENTS: Acquiring and disposing of property, plant and equipment and other assets used in the production of goods and services. Most sales within the DBOF are recorded as revenue and thereby included in line 1 of this statement. However, if an incoming cash flow is not as a result of revenue, that cash flow should be identified within this section as either a result of a sale of property, plant and equipment or other cause.

12. Line 12 - Sale of Property, Plant and Equipment. The cash proceeds received from sales of surplus real and personal property (e.g., buildings, docks and piers, and equipment) adds to the DBOF cash balance.

13. Line 13 - Purchase of Property, Plant and Equipment. The amounts disbursed for acquisitions of plant, property, and equipment reduces the DBOF cash balance. Include amounts disbursed for minor construction projects.

1012.2 - Funds Disbursed - Capital Program - DBOF

14. Line 14 - Other Investment Cash Provided (Used). The net amounts of other collections or disbursements associated with the purchase and sale of other investments. Identify the nature of each investment purchased and sold. (Not Applicable to DBOF)

15. Line 15 - Net Cash Provided (Used) by Investments. The sum of lines 12. through 14.

CASH FLOWS FROM APPROPRIATIONS: Resources obtained in the form of appropriations from the Congress, or by transferring from or to other reporting entities. Appropriations may not, in all cases, be distributed to the individual activity level. If appropriations are not distributed, then they may be reported by the DBOF level that is holding those balances or allocated by that DBOF level, for reporting purposes, to the appropriate activity(ies).

16. Line 16 - Appropriations (Current Warrants). The amount of appropriations received (consistent with above), net of rescissions.

17a. Line 17a - Restorations. DBOF cash balances withdrawn by the Treasury in prior years which were restored. As a rule, this does not apply to the DBOF.

17b. Line 17b - Transfers of Cash from Others. The amounts of cash transferred from all Federal sources, except the Treasury. Report cash transfers in from other DBOF activities as a plus. The amounts to be reported are those solely to transfer cash balances. A transfer of cash as a result of work performed (reimbursable sales) shall not be reported on this line. The following equity account shall be used:

3211.4 Net Treasury Balance-DBOF

18a. Line 18a - Withdrawals. The amounts of unobligated appropriations withdrawn by the Treasury. As a rule, this does not apply to the DBOF.

18b. Line 18b - Transfers of Cash to Others. The amounts of cash transferred to Federal agencies, except the Treasury. Report cash transfers out to other DBOF activities as a negative. The amounts to be reported are those solely to transfer cash balances. A transfer of cash as a result of work performed (reimbursable sales) shall not be reported on this line. The following equity account shall be used:

3211.4 Net Treasury Balance-DBOF

19. Line 19 - Net Appropriations. Net of lines 16, 17, and 18.

20. Line 20 - Repayments on Loans from the Treasury and the Federal Financing Bank. The amounts disbursed to liquidate loans obtained from the Treasury or Federal Financing Bank. (Applicable only to the Military Sealift Command.)

21. Line 21 - Net Cash Provided (Used) by Appropriations. Net of lines 16. through 20.

22. Line 22 - Net Cash Provided (Used) by Operations, Investments, and Appropriations. The amounts reported on lines 11., 15. and 21.

23. Line 23 - Fund Balances, Beginning. The sum of account balances at the beginning of the fiscal year. Undistributed amounts will be reported at the lowest organizational level to which they can be identified.

24. Line 24 - Fund Balances, Ending. The net of lines 22. and 23. The amounts should agree with the amounts reported for line 1, "Fund Balance with Treasury," and line 2, "Cash on Hand and Other Monetary Assets," on the current month's DBOF statement of financial position.

SUPPLEMENTAL INFORMATION:

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: When the indirect method is used to prepare the cash flow statement, the amount of interest paid (net of amounts capitalized) during the period shall be provided in this section of the statement.

25. Line 25 - Total Interest Paid. The amount of interest paid during the period net of amounts capitalized.

SUPPLEMENTAL SCHEDULE OF APPROPRIATIONS AND INVESTMENTS: Information about all appropriations and investments of a reporting entity during a period that affect recognized liabilities but that do not result in cash receipts or payments in the period shall be reported in this section.

26. Line 26 - Property and Equipment Acquired under Capital Lease Obligations. Property and equipment acquired under such leases that did not result in cash payments.

27. Line 27 - Property Acquired Under Long-term Financing Arrangements. Property acquired under these arrangements that did not result in cash payments.

28. Line 28 - Other Exchanges of Noncash Assets or Liabilities. Any other exchange of noncash assets or liabilities not specifically identified above.

* SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION: Report the preclosing balances in the following General Ledger Account Codes. Additionally, of the amounts reported as undistributed collections and undistributed disbursements, disclose the amount of each that was closed, for financial reporting purposes, to Accounts Receivable and Accounts Payable. Volume 1, Chapter 7, of this Regulation provides a definition of each account. The amounts should agree *

with the total amount reported on Line 31. Undistributed amounts will be reported at the lowest organizational level to which they can be identified.

29. <u>Line 29 - Funds Collected</u>
29a. GLAC 1011.1 - Funds Collected - Operating Program - DBOF
29b. GLAC 1011.2 - Funds Collected - Capital Program - DBOF
29c. GLAC 1011.3 - Funds Collected - Undistributed - DBOF

30. <u>Line 30 - Funds Disbursed</u>
30a. GLAC 1012.1 - Funds Disbursed - Operating Program - DBOF
30b. GLAC 1012.2 - Funds Disbursed - Capital Program - DBOF
30c. GLAC 1012.3 - Funds Disbursed - Undistributed - DBOF

31. <u>Line 31 - Cash on Hand and Other Monetary Assets</u>
31.a GLAC 1110 - Undeposited Collections
31.b GlAC 1191 - Disbursing Officers' Cash
31c GLAC 1195 - Other Monetary Assets

32. <u>Line 32 - Funds with Treasury</u>
32a. GLAC 1013.1 - Funds with Treasury - Operating Program - DBOF
32b. GLAC 1013.2 - Funds with Treasury - Capital Program - DBOF

33. <u>Line 33 - Undistributed Collections</u> (As appropriate)
33a. GLAC 1014.1 - Undistributed Collections - DBOF Component Level
33b. GLAC 1014.2 - Undistributed Collections - DBOF Business Area Level
33c. GLAC 1014.3 - Undistributed Collections - DBOF Installation Level

34. <u>Line 34 - Undistributed Disbursements</u> (As appropriate)
34a. GLAC 1015.1 - Undistributed Disbursements - DBOF Component Level
34b. GLAC 1015.2 - Undistributed Disbursements - DBOF Business Area Level
34c. GLAC 1015.3 - Undistributed Disbursements - DBOF Installation Level

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION IV

FORMAT OF THE STATEMENT OF OPERATIONS

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
AND
CHANGES IN NET POSITION
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING________________, 19____

PART I - STATEMENT OF OPERATIONS

	($000)	($000)
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		$________
2. Revenues from Sales of Goods and Services		$________
a. Gross Revenue from Sales	$________	
b. Less: Credits Allowed on Sales	($________)	
3. Other Revenue & Financing Sources		$________
4. Total Revenues and Financing Sources:		$________
EXPENSES		
5. Program or Operating Expenses (Lines A - G, Part IV)		
6. Cost of Goods Sold and Services Provided (From Part III)		$________
7. Depreciation and Amortization (Line H, Part IV)		$________
8. Bad Debts and Writeoffs (Line I, Part IV)		$________
9. Other Expenses (Line J, Part IV)		$________
10. Total Expenses (Lines 5 through 9)		$________
11. Revenue Less Cost Incurred Before Extraordinary Items (Line 4 - Line 10)		$________
12. Plus (Minus) Extraordinary Items		$________
13. NET OPERATING RESULTS		$________
14. Plus (Minus) Nonrecoverable Amounts (From Part V)		$________
15. Recoverable Operating Results		$________

<u>Capital Investment Program</u>

16. OBLIGATIONS FOR CAPITAL ASSETS (From Part VI)		$________
17. OUTLAYS FOR CAPITAL ASSETS (From Part VI)		$________

Footnote: Mobilization Requirement Cost $________

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
AND
CHANGES IN NET POSITION
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING________________, 19____

PART II - CHANGES IN NET POSITION

	($000)	($000)
1. Changes in Equity		
A. Appropriations		
(1) Appropriations Available - Beginning of Year	$________	
(2) Plus or Less: Changes in Appropriation Balance	$________	
(3) Plus or Less: Cash Transfers	$________	
(4) Equals: Appropriations Available - End of Period		$________
B. Accumulated Operating Results (AOR)		
(1) AOR - Beginning of Year (Unadjusted)	$________	
(2) Plus (Minus): Prior Period Adjustments To AOR	$________	
(3) Equals: AOR - Beginning of Year (Adjusted)	$________	
(4) Plus: Net Operating Results - End of Period	$________	
(5) Equals: Operating Results - End of Period		$________
C. Net Equity Position - End of Period		$________
D. Capital Investments		
(1) Capital Investments - Beginning of Fiscal Year	$________	
(2) Plus: Transfers-In of Property	$________	
(3) Less: Transfers-Out of Property	$________	
(4) Less: Invested Capital Used	$________	
(5) Plus (Less): Changes in Liabilies Assumed	$________	
(6) Equals: Capital Investments - End of Period		$________
2. Total Equity - End of Period		$________

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING________________, 19___

PART III - COST OF GOODS SOLD AND SERVICES PROVIDED

	($000)	($000)
1. Cost of Goods and Services Sold: 1/		
a. Beginning Work-in-Process	$________	
b. Plus: Operating Expenses (Lines A-G, Part IV)	$________	
c. Minus: Ending Work-in-Process	$________	
d. Minus: Work for Activity Retention	$________	
e. Equals: Cost of Goods and Services Sold		$________
2. Cost of Goods Sold from Inventory: 2/		
a. Operating Expenses (Lines A-G, Part IV)		$________
b. Beginning Inventory - L.A.C.	$________	
c. Less: Beginning Allowance for Unrealized Holding Gains (Losses)	$________	
d. Plus: Purchases at Cost	$________	
e. Plus: Customer Returns - Credit Given	$________	
f. Plus: DLR Exchange Credits	$________	
g. Less: Inventory Losses Realized	$________	
h. Less: Ending Inventory - L.A.C.	$________	
i. Plus: Ending Allowance for Unrealized Holding Gains (Losses)	$________	
j. Equals: Cost of Goods Sold from Inventory		$________

1/ Section 1 (lines 1.a. through 1.e.) is to be completed by all DBOF business areas other than the Supply Management and Commissary Resale Business Areas.

2/ Section 2 (lines 2.a. through 2.j.) is to be completed only by the Supply Management and Commissary Resale Business Areas.

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING________________, 19___

PART IV - EXPENSES

	($000)	($000)
A. Personal Services and Benefits		$________
6111 Personnel Compensation - Civilian	$________	
6130 Annual Leave	$________	
6115 Benefits for Former Personnel	$________	
B. Travel and Transportation		$________
6116 Travel and Transportation of Persons	$________	
6117 Transportation of Things	$________	
C. Rents, Communications & Utilities		$________
6118 Rent, Communication and Utilities	$________	
6119 Printing and Reproduction	$________	
D. Contractual Services and Supplies		$________
6120.1 Military Personnel Services	$________	
6120.2 Purchased Services-Other	$________	
E. Supplies, Materials and Other Non-Capitalized Assets		$________
6121 Supplies and Materials	$________	
6122 Equipment (Not Capitalized)	$________	
F. Grants and Fixed Charges		$________
6123 Grants, Subsidies and Contributions	$________	
6124 Insurance Claims and Indemnifications	$________	
6330 Other Interest Expenses	$________	
G. Other Expenses		
6900 Other Expenses		$________
H. Depreciation-Total		$________
6125 Depreciation of Equipment	$________	
6126 Depreciation of Real Property	$________	
6128 Amortization of Leasehold Improvements and Other Intangible Assets	$________	
I. Bad Debts and Other Writeoffs		
6129 Bad Debts		$________
J. Other Losses		$________
7210 Losses on Disposition of Assets	$________	
7291.1 Shrinkage/Deterioration Losses	$________	
7291.2 Excess/Obsolescence/Spoilage Loss	$________	
7291.3 Other Inventory Losses	$________	
7293 Other Miscellaneous Losses	$________	
K. Non-DBOF Financed (i.e., Unfunded) Expenses		$________
5700 Appropriated Capital Used	$________	
5790 Invested Capital Used	$________	

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
(DoD COMPONENT/BUSINESS AREA)
MONTH ENDING________________, 19____

PART V - RECOVERABLE OPERATING RESULTS

		($000)	($000)
1.	NET OPERATING RESULTS:		$________
2.	NONRECOVERABLE/DEFERRED AMOUNTS:		
	a. Losses on Disposal of Excess Inventory (-)	$________	
	b. Disposal of Equipment/Capital Assets (-)	$________	
	c. Non-Reimbursable Base Closure (BRAC) Costs (-)	$________	
	d. Difference Military Personnel Reimbursement/Applied Costs (+/-)	$________	
	e. Capital Asset Surcharge (-)	$________	
	f. Other Applicable Gains and Losses (+/-)	$________	
	g. Total - Nonrecoverable/Deferred Costs		$________
3.	Net Operating Results that are Comparable to Budgeted Amounts		$________
4.	Amount Budgeted for the Return/Recovery of Prior Year(s) Gain/Loss		$________
5.	NET RECOVERABLE OPERATING RESULTS FROM CURRENT YEAR OPERATIONS		$________

NOTE: As a matter of policy, any amounts that a DoD Component requests be excluded from its DBOF rates--whether identified in DoD Comptroller guidance as permissible, or requested by the DoD Component--must be adequately documented and quantified. Further, all such amounts must be approved by the Office of the DoD Comptroller (Program/Budget). Amounts not explicitly approved by the Office of the DoD Comptroller for exclusion from customer rates shall be excluded from this report.

Data for the completion of all "Nonrecoverable/Deferred Amounts" may not be available readily to a reporting entity from accounting records. Nevertheless, each amount reported shall be supported either by accounting or other adequate documentation provided by the activity, management command or departmental level command of the reporting entity. If applicable amounts are captured at the business area level, they shall be allocated or assigned to activities in accordance with guidance provided by the DoD Component. Care should be taken to ensure that amounts so allocated or assigned are equal to the total. As the amounts reported may be used in the development of subsequent year stabilized billing rates, it is important that the categories and amounts reported are consistent with guidance provided or approved by the Director for Revolving Funds, Office of the DoD Comptroller (Program/Budget).

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
(DoD COMPONENT/BUSINESS AREA/ACTIVITY)
MONTH ENDING________________, 19____

PART VI - CAPITAL INVESTMENT PROGRAM

	Approved Program			Obligations			Outlays		
Progarm Year	Original Program	Program Adjustments	Current Program	This Fiscal Years	Prior Fiscal Year(s)	Total	This Fiscal Year	Prior Fiscal Year(s)	Total
FY 19PY-1	$______	$______	$______	$______	$______	$______	$______	$______	$______
FY 19PY	$______	$______	$______	$______	$______	$______	$______	$______	$______
FY 19CY	$______	$______	$______	$______	$______	$______	$______	$______	$______
Total	$______	$______	$______	$______	$______	$______	$______	$______	$______

DEFENSE BUSINESS OPERATIONS FUND
STATEMENT OF OPERATIONS
(DoD COMPONENT/BUSINESS AREA/DIVISION)
FISCAL YEAR THROUGH
MONTH OF______________, 19___

PART VII - INVENTORY MANAGEMENT REPORT - SUPPLY MANAGEMENT BUSINESS AREA

	Current Year To Date (1)	Planned To Date (2)	Variance $ % (3)
A. Customer Orders Accepted - Cumulative			
B. Gross Reimbursable Sales of Property - Cumulative			
C. Unfilled Customer Orders			
D. Customer Returns - Credits Granted - Cumulative			
E. Net Reimbursable Sales of Property - Cumulative			
F. Purchases at Cost - Cumulative			
G. Obligations - Cumulative			
H. Obligations Operating - Cumulative			
I. Obligations Augmentation - Cumulative			
J. Obligations Mobilization - Cumulative			
K. Outstanding Commitments			
L. Inventories - Stock On hand			
M. Other Inventories			
N. Inventories in Transit			
P. Total Inventories			
Q. Customer Returns Without Credit - Cumulative			
R. Transfers to Reutilization and Marketing - Cumulative			
S. Material Returns to Suppliers - Cumulative			
T. Undelivered Orders			
U. Fund Balance with Treasury			
V. Funds Collected - Cumulative			
W. Funds Disbursed - Cumulative			
X. Receivables - Government			
Y. Receivables - Public			
Z. Payables			

NOTE: The above line items are the same as those previously described in DoD 7420.13-R, "Stock Fund Operations," for the Accounting Report (AR) 1302. The AR 1302 as currently prepared shall continue to be prepared until further notice.

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING REPORT
[ACCOUNTING REPORT (M) 1307]

SECTION IV

INSTRUCTIONS FOR THE PREPARATION OF THE STATEMENT OF OPERATIONS

A. General. Part I provides data on current operating results by Defense Business Operations Fund business area.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area and (c) the reporting period (month and calendar year).

C. Line Item Instructions. Instructions for the content of each line item are as follows:

1. Line 1 - Appropriated Capital Used. Appropriations, primarily for War Reserve Material and Commissary Operations, may be provided directly to the DBOF. General ledger account (GLA) 5700, "Appropriated Capital Used," is used to record accrued expenses (versus outlays) of appropriated funds provided directly to the Fund. The purpose of the account is to match current period expenses against the use of appropriated funds used to finance those expenses. The amounts to be recorded in Account 5700 shall be equal to the amount of program expenses recorded in the 6100 series of accounts but shall not include any expenses applicable to revenue accounts other than GLA 5700--in other words, expenses incurred against an appropriation made directly available to the DBOF should be recorded separately from expenses incurred against ordinary DBOF reimbursable financing. Addendum 1 to Chapter 52 of this Regulation contains additional information on GLA 5700. Report the balance in the following account:

5700 Appropriated Capital Used

2. Line 2. - Revenues from Sale of Goods and Services. The amount reported shall ordinarily agree with the amount reported on line 3.A., "Reimbursements Earned," of the DD Form 1176, "Report on Budget Execution." If it does not agree with line 3.A. of the DD Form 1176, include a note explaining the difference (for example, line 3.A. of the DD Form 1176 may include some of the amounts reported in line 6 below.) Report the balance in the following accounts:

5100 Revenue from Goods Sold
5200 Revenue from Services Provided

NOTE: The Supply Management Business Area shall report revenue net of amounts allowed for returns of material for credit. The dollar amount of materiel returns with credit shall be reported on line 2.b.

3. Line 2.a. - Gross Revenue from Sales. This line applies to the Supply Management business area only. Reporting activities within the Supply Management business area shall report gross revenue on this line. Gross revenue is revenue before deduction of amounts allowed for returns of material for credit and credits allowed on Depot Level Repairable Exchanges (DLRs). The

dollar amount of materiel returns with credit shall be reported on line 2.b.(2). Report the following accounts on this line:

5100	Revenue from Goods Sold
5200	Revenue from Services Provided

4. <u>Line 2.b. - Credits Allowed on Sales</u>. This line applies to the Supply Management business area only. Reporting activities within the Supply Management business area shall report the dollar amount of credits allowed on amounts due it (accounts receivable) as a result of sales or DLR exchanges. Report the following accounts on this line:

1529.1E	Materiel Returns - Credit Given
1529.3A	Estimated Repair Costs
1529.3B	Estimated Exchange Costs

5. <u>Line 3 - Other Revenue & Financing Sources</u>. Report revenues and financing sources not reported on lines 1 or 2. Include cash donations and an amount equal to any depreciation recorded against donated assets. Invested capital used is the depreciation expense of capital assets provided to Fund activities for its use but which were paid for by funds other than the Defense Business Operations Fund. Identify the nature of each miscellaneous gain. Report the total recorded in the following accounts:

5600	Donated Revenue
5790	Invested Capital Used
5910	Miscellaneous Reimbursements
7110	Gains on Disposition of Assets
7193	Other Miscellaneous Gains

(a) General ledger account (GLA) 5790, "Invested Capital Used," is used to record, as a financing source, the value of assets (ordinarily buildings and other assets financed by a Military Construction appropriation) used by, and in custody of, a DBOF activity but which were not acquired, nor will be replaced, through use of Defense Business Operations Fund resources.

(b) The amounts to be recorded in this account shall be equal to the amount of depreciation expense recorded in general ledger account 6125, "Depreciation of Equipment," general ledger account 6126 "Depreciation of Real Property," and general ledger account 6127, "Depletion of Natural Resources," but only if the depreciated asset(s) were not acquired nor will be replaced through use of Defense Business Operations Fund resources. No other amounts shall be recorded to general ledger account 5790.

(c) Addendum 1 to Chapter 58, "Capital Assets," of this Regulation contains additional information on GLA 5790.

6. <u>Line 4 - Total Revenues and Financing Sources</u>. Report the total of lines 1 through 3 above. Revenue should equal net sales plus any other reimbursable revenue and financing source.

7. <u>Line 5 - Program or Operating Expenses</u>. This line is a summary of appropriations expensed during the current period. Do not include (1) cost of goods sold [reported on line 6 below], (2) expenditures for assets that were

capitalized [those capital assets should be reported on the Statement of Financial Condition] or (3) any expense reported on other lines. Appropriations expensed to be reported are all direct appropriation expenses incurred by Fund activities which received a direct appropriation (for example, war reserve materials and commissaries) and should be equal to the "Appropriated Capital Used" reported on line 1. The total of the amount reported for this line should be equal to the balance in the following account:

5700 Appropriated Capital Used

8. Line 6 - Cost of Goods Sold and Services Provided. Report the total shown on Part III, Cost of Goods Sold and Services Provided. (Form and Content Guidance, published by the Office of Management and Budget, asks that this line be subdivided between (a) costs of goods sold to the public and (b) costs of goods sold to DoD and other Federal entities. That subdivision is not necessary for AR 1307 reporting. For the annual Chief Financial Officer's Act report, the subdivision could be reported in the same proportion as revenue is reported from the public and from DoD and other Federal entities.)

9. Line 7 - Depreciation and Amortization. This line is a summary of depreciation/depletion/amortization expense associated with capital assets used by the Defense Business Operations Fund. Report depreciation expense incurred during the reporting period which was posted to applicable accounts (or sub-accounts) in the 6000 Series (expense) accounts within the DoD Chart of Accounts. The total reported in line H of Part IV will be reflected on this line.

10. Line 8 - Bad Debts and Writeoffs. This line is a summary of bad debt and other writeoff expense incurred during the reporting period which was posted to applicable accounts (or sub-accounts) in the 6000 Series (expense) accounts within the DoD Chart of Accounts. The total reported in line I of Part IV will be reflected on this line.

11. Line 9 - Other Expenses. The total reported in line J of Part IV will be reflected on this line.

12. Line 10 - Total Expenses. Sum of lines 5 through 9.

13. Line 11 - Revenue Less Cost Incurred Before Extraordinary Items. Report the net amount of line 4 less line 10.

14. Line 12 - Plus (Minus) Extraordinary Items. Report the net balance in the following account. Extraordinary gains are unusual, unrelated to the activity's ordinary activities, and occur infrequently. Identify, as a footnote, the nature of each extraordinary gain or loss. Report the balance in the following account:

7300 Extraordinary Items

15. Line 13 - Net Operating Results. Line 11 plus (or less) line 12.

16. Line 14 - Plus (Minus) Nonrecoverable Costs. Report the amount shown on line 3 of Part V, Recoverable Operating Results.

17. Line 15 - Recoverable Operating Results. Line 13 plus (or less) line 14.

18. Line 16 - Obligations for Capital Assets. Report the amount of obligations shown on Part VI, Capital Investment Program.

19. Line 17 - Outlays for Capital Assets. Report the amount of outlays shown on Part VI, Capital Investment Program.

20. **FOOTNOTE:** DBOF business area activities shall record and report financial information on the maintenance of a mobilization capability in accordance with the DoD accounting and reporting requirements specified for the DBOF. The Monthly Report of Operations (AR 1307) shall be prepared to include a footnote which identifies the amount of the mobilization requirement costs which are funded through direct appropriations or reimbursable orders accepted specifically for mobilization requirements.

PART II - CHANGES IN NET POSITION

A. General. This part, Part II, provides data on the current equity position of the Defense Business Operations Fund.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area/activity, (c) the reporting period (month), and (d) the year.

C. Line Item Instructions. Instructions for the content of each line item are as follows:

1. Line 1.A.(1). - Appropriations Available - Beginning of Year. Report the balance of appropriations available at the end of the preceding fiscal year. This amount should be the same as reported on line 1.A.(4) on September 30 of the preceding fiscal year. The amount reported will not change during the fiscal year.

2. Line 1.A.(2) - Plus or Less: Changes in Appropriation Balance. This is equal to the difference between the beginning of the fiscal year balance and the balance as of the end of the reporting period. The amount should be equal to:

a. Increases to GLA 3211.1, "Appropriations Available," occurring as a result of direct appropriations made available by the Congress to the DBOF. For example, direct appropriations received for the acquisition of war reserve materiels and direct appropriations made available to the Commissary business area and U.S. Transportation Command.

b. Increases to GLA 3211.1, "Appropriations Available," occurring as a result of nonexpenditure transfers from other current appropriations and funds.

c. Decreases as a result of the use of appropriations. These decreases should be equal to the amount reported on Part I, line 1, "Appropriated Capital Used."

d. Decreases to GLA 3211.1, "Appropriations Available," occurring as a result of nonexpenditure transfers to other appropriations and funds.

3. Line 1.A.(3) - Plus or Less: Cash Transfers. Report cash transfers in from other DBOF activities as a plus and cash transfers out to other DBOF activities as a negative. The amounts to be reported are those solely to transfer cash balances. A transfer of cash as a result of work performed (reimbursable sales) shall not be reported on this line. The following equity account shall be used:

3211.4 Net Treasury Balance-DBOF

4. Line 1.A.(4) - Equals: Appropriations Available - End of Period. Report the net total of line 1.A.(1) through line 1.A.(3). The amount reported should agree with the amount reported on line 14.a. of the Statement of Financial Condition.

5. Line 1.B.(1) - Accumulated Operating Results - Beginning of Fiscal Year (Unadjusted). Report the balance of accumulated operating results available at the end of the preceding fiscal year. This amount should be the same as the amount reported on line 1.B.(5) on September 30 of the preceding fiscal year. This amount will not change during the fiscal year.

6. Line 1.B.(2) - Plus or (Minus): Prior Period Adjustments to Accumulated Operating Results. A credit balance is reported as a plus; a debit balance is reported as a negative. Report prior period adjustments recorded in the following account:

7400 Prior Period Adjustments

7. Line 1.B.(3) - Accumulated Operating Results - Beginning of Fiscal Year (Adjusted). Report the net total of line 1.B.(1) plus or minus, as applicable, line 1.B.(2).

8. Line 1.B.(4) - Plus: Net Operating Results - End of Period. Report the amount shown on line 13, Net Operating Results, of Part I, Statement of Operations.

9. Line 1.B.(5) - Equals: Operating Results - End of Period. Report the net total of lines 1.B.(3) and (4). The amount reported should be equal to the amount reported on line 14.c. of the Statement of Financial Condition.

10. Line 1.C. - Net Equity Position - End of Period. Report the net total of line 1.A.(4) and line 1.B.(5).

11. Line 1.D.(1) - Capital Investments - Beginning of Fiscal Year. Report the balance of capital investments available at the end of the preceding fiscal year. The amount reported should be equal to the amount reported on line 14.b. of the Statement of Financial Condition at the end of the preceding fiscal year. This amount will not change during the fiscal year.

12. Line 1.D.(2) - Plus: Transfers-In of Property. Report the value of capital assets received without reimbursement. The amount reported should be equal to the amount reported on line 14.b.(4) of the Statement of Financial Condition. Report the amount in the following account:

3220 Transfers-In from Others Without Reimbursement

NOTE: GLA 3220 is closed to GLA 3211.2, "Assets Capitalized," at fiscal year end.

13. Line 1.D.(3) - Less: Transfers-Out of Property. Report the value of capital assets transferred out without reimbursement. The amount reported should be equal to the amount reported on line 14.b.(5) of the Statement of Financial Condition. Report the amount in the following accounts:

3231 Transfers Out to Government Agencies Without Reimbursement
3232 Transfers Out to All Others Without Reimbursement

NOTE: GLAs 3231 and 3232 are closed to GLA 3211.2, "Assets Capitalized," at fiscal year end.

14. <u>Line 1.D.(4) - Less: Invested Capital Used</u>. Report the amount recorded in the following account:

* 5790 Invested Capital Used

15. <u>Line 1.D.(5) - Plus (Less): Changes in Liabilities Assumed</u>. Report net changes during the fiscal year to date in the following account:

3211.3 Liabilities Assumed

16. <u>Line 1.D.(6) - Equals: Capital Investments - End of Period</u>. Report the net total of lines 1.D.(1) through (5). The amount reported should be equal to the amount reported on line 14.b. of the Statement of Financial Condition.

17. <u>Line 2 - Total Equity - End of Period</u>. Report the total of the above lines. The amount reported should be equal, prior to year-end closing, to the balance in the following accounts:

3211 Capital Investment-DBOF
3220 Transfers In from Others Without Reimbursement
3230 Transfers Out to Others Without Reimbursement
3311.1 Cumulative Results of Operations-DBOF
3311.2 Cumulative Results of Operations-DBOF-Deferred
3321 Net Results of Operations-DBOF

PART III - COST OF GOODS SOLD AND SERVICES PROVIDED

A. General. All costs, including gains and losses, applicable to the production of goods and services sold to customers during the reporting period must be reflected on this part (Part III) of the report. The total included in line 3 of Part III of the Statement of Operations must agree with the amount shown on line 6, Part I of the Statement of Operations.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area and activity (c) the reporting period (month), and (d) the year.

C. Line Item Instructions. Instructions for the content of each line item are as follows.

1. Line 1 - Cost of Goods and Services Sold. This line is to be used by all business areas other than the Supply Management and Commissary Resale business areas -- the Supply Management and Commissary Resale business areas shall use line 2 of this part to compute its cost of goods sold. Fund business areas that do not use a job-order or process cost accounting system may not have data to complete all parts of line 1. In those cases, the expenses incurred, as reported on line 1.b., "Operating Expenses," of this part shall be the cost of goods and services sold for those business areas.

2. Line 1.a. - Beginning Work-in-Process. Enter the total of the balances in the following accounts as of the end of the preceding reporting period:

1581 Work in Process - In House
1582 Work in Process - Contractor
1583 Work in Process - Other Government Activities
1584 Work in Process - Government-Furnished Material

3. Line 1.b. - Operating Expenses. Enter the total of the amounts reported on Part IV, "Expenses" on lines A through G.

4. Line 1.c. - Minus: Ending Work-in-Process. Enter the total of the balances in the following accounts as of the end of the current reporting period. The amount reported should agree with the amount reported on line 6 of the Statement of Financial Condition.

1581 Work in Process - In House
1582 Work in Process - Contractor
1583 Work in Process - Other Government Activities
1584 Work in Process - Government-Furnished Material

5. Line 1.d. - Minus: Work for Activity Retention. Report the value of assets developed or manufactured for use and retention by the performing business area activity. Enter the balance in the following accounts:

1720 Construction in Progress
1725 Assets Under Development - DBOF

6. Line 1.e. - Equals: Costs of Goods and Services Sold. Report the net total of lines 1.a. through line 1.d.

7. Line 2 - Cost of Goods Sold from Inventory. This category of costs is reported only by the Supply Management and Commissary Resale Business Areas.

> NOTE: The Statement of Federal Financial Accounting Standard Number 3, "Accounting for Inventory and Related Property," sets forth the accounting principles that shall be followed by federal government entities when accounting for and reporting inventory and related property. An illustration of the DoD implementation of those principles is contained in Addendum 2 to Chapter 55, "Supply Management Operations," (for DoD Components recording inventory at its standard [selling] price) and Addendum 3 to Chapter 55 (for DoD Components recording inventory at its latest invoice price). The referenced illustrations demonstrate the application of the accounts indicated below and must be read for a fuller understanding of the reporting requirements contained in section 2 of this Part III.

8. Line 2.a. - Operating Expenses. Enter the total of the amounts reported on Part IV, "Expenses," on lines A through G.

9. Line 2.b. - Beginning Inventory - L.A.C.. Report the balance as shown on line 2.h. "Ending Inventory" as of the close of the prior reporting period. (L.A.C. is "Latest Acquisition Cost.")

10. Line 2.c. - Less: Beginning Allowance for Unrealized Holding Gains/Losses. Report the balance as shown on line 2.i. "Ending Allowance for Unrealized Holding Gains/Losses," as of the close of the prior reporting period. Holding gains (or losses) are recognized in the valuation of inventory. Holding gains or losses may be unrealized or realized. "Unrealized" refers to any gain or loss associated with inventory still held by the entity. "Realization" of the holding gain or loss occurs only when an item of inventory is sold or otherwise leaves the supply management stocking point.

11. Line 2.d. - Plus: Purchases At Cost. Report amounts paid or payable for all inventory purchases during the reporting period. Increases during the month in the following account shall be reported:

    1529.1C Purchases at Cost

12. Line 2.e. - Plus: Customer Returns - Credit Given. Report amounts of credit given during the month on materiel returns. Increases during the month in the following account shall be reported:

    1529.1E Materiel Returns - Credit Given

13. Line 2.f. - Plus: DLR Exchange Credits. Report amounts of credit given during the month on Depot Level Repairable (DLR) exchanges. Increases during the month in the following account shall be reported:

    1529.3 Allowance for Repairs

14. Line 2.g. - Inventory Losses Realized. The realization of most inventory gains (and losses) are recognized through reduction of the unrealized holding gains/losses accounts as a result of sales; that is, those gains and losses are realized when inventory items are sold and are recognized in the cost of goods sold. However, decreases in inventory occurring as a result of disposal and other events other than sale also result in a reduction of the unrealized holding gains/losses accounts. As those inventory decreases are not the result of sales, they should not affect the cost of goods sold. Therefore, the value of those losses shall be removed from the cost of goods sold and reported on line J of Part IV, "Expenses," Statement of Operations. The following accounts are reported on this line:

7291.1	Excess/Obsolescence/Spoilage Loss
7291.2	Shrinkage/Deterioration Losses
7291.3	Other Inventory Losses

15. Line 2.h. - Ending Inventory - LAC. Report the end of the period inventory value of the following accounts. Ensure that amounts reported have been adjusted to Latest Acquisition Cost (LAC) in accordance with DoD directions (see Addendum 2 to Chapter 55, "Supply Management Operations."). The amount reported should be the same amount that is reported on line 5.a., "Inventory Items," on the Statement of Financial Condition.

1521	Inventory Held for Sale
1521.1	Inventory in Transit from Procurement
1521.2	Inventory in Transit from DoD Entities
1522	Inventory Held in Reserve for Future Sale
1523	Inventory Held for Repair
1523.1	Exchange (DLR) Inventory in Transit
1524	Inventory - Excess, Obsolete and Unserviceable

16. Line 2.i. - Plus: Ending Allowance for Holding Gains/Losses. Report the total of the balances in the following accounts. The amount reported should be the same amount that is reported on line 5.b., "Allowance for Unrealized Gain/Loss on Inventories," on the Statement of Financial Condition.

1529.1	Allowance for Holding Gain/Loss - Inventory Held for Sale
1529.2	Allowance for Holding Gain/Loss - Inventory Held in Reserve for Future Sale
1529.3	Allowance for Repairs

17. Line 2.j. - Equals: Cost of Goods Sold from Inventory. Report the net total of lines 2.b. through line 2.i.

PART IV - EXPENSES

A. General. All expenses incurred during the reporting period must be reflected on this part of the report. The total of lines A - I, Part IV must agree with the amount shown on line 6, Part I.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area/activity (c) the reporting period (month), and (d) the year.

* C. Line Item Instructions. Instructions for the content of each line item are *
* as follows. *

1. Line A - Personal Services and Benefits. Report the balance in following accounts.

6111 Personnel Compensation - Civilian
6130 Annual Leave
6113 Personnel Benefits - Civilian
6115 Benefits for Former Personnel

2. Line B - Travel and Transportation. Report the balance in the following accounts.

6116 Travel and Transportation of Persons
6117 Transportation of Things

3. Line C - Rents, Communications & Utilities. Report the balance in the following accounts.

6118 Rent, Communication and Utilities
6119 Printing and Reproduction

4. Line D - Contractual Services and Supplies. Report the balance in the following accounts.

* 6120.1 Military Personnel Services (Except for Air Mobility Command)
* 6120.2 Purchased Services-Other

5. Line E - Supplies, Materials and Other Non-Capitalized Assets. Report the balance in the following accounts.

6121 Supplies and Materials
6122 Equipment (Not Capitalized)

6. Line F - Grants and Fixed Charges. This line should not apply to activities of the Defense Business Operations Fund. The following accounts are applicable.

6123 Grants, Subsidies and Contributions
6124 Insurance Claims and Indemnifications
6310 Interest Expenses on Borrowing From Treasury
6320 Interest Expenses on Securities

6330 Other Interest Expenses

7. Line G - Other Expenses. Report amounts which do not coincide to the description of the other elements of expense and identify the type of expense reported in this line. Report the balance in the following account:

6900 Other Expenses

8. Line H - Depreciation - Total. Report the balance in the following accounts.

6125 Depreciation of Equipment
6126 Depreciation of Real Property
6127 Depletion of Natural Resources
6128 Amortization of Leasehold Improvements and Other Intangible Assets

9. Line I - Bad Debts and Other Writeoffs. Report the balance in the following account.

6129 Bad Debts

* 10. Line J - Other Losses. Report the balances in the following accounts. *

7210 Losses on Disposition of Assets
7291.1 Shrinkage/Deterioration Losses
7291.2 Excess/Obsolescence/Spoilage Loss
7291.3 Other Inventory Losses
7293 Other Miscellaneous Losses

11. Line K - Non-DBOF Financed Expenses. Report unfunded costs financed by other appropriations and funds. Further information on the purpose and use of general ledger account 5700 is at the Addendum to Chapter 52, "Budgetary Resources." Further information on the purpose and use of general ledger account 5790 is at Addendum 1 to Chapter 58, "Capital Assets." Record the balances in the following accounts:

5700 Appropriated Capital Used
5790 Invested Capital Used
* 6120.1 Military Personnel Services (Air Mobility Command ONLY) *

* PART V - RECOVERABLE OPERATING RESULTS *

A. General. This part is intended to disclose differences, if any, between net operating results reported on Part I, "Statement of Operations," and the operating results used in the budget formulation of stabilized billing rates. As a matter of policy, any amounts that a DoD Component requests be excluded from its DBOF rates--whether identified in Under Secretary of Defense (Comptroller) guidance as permissible or requested by the DoD Component--must be adequately documented and quantified. Further, all such amounts must be approved by the Office of the Under Secretary of Defense (Comptroller). Amounts not explicitly approved by the Office of the Under Secretary of Defense (Comptroller) for exclusion from customer rates shall be excluded from this report.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area (c) the reporting period (month), and (d) the year.

C. Line Item Instructions. Instructions for the content of each line item are as follows.

1. Line 1 - Net Operating Results. Enter the amount reported on Part I of the Statement of Operations, line 13, "Net Operating Results."

2. Line 2 - Nonrecoverable/Deferred Amounts. Data reported on this line and its sublines, unless otherwise specified below, are restricted to specific exclusions approved by the Office of the Deputy Comptroller (Program/Budget). Amounts to be reported on monthly activity reports should be obtained from, or approved by, the activity, management command of the reporting business area or the DoD Component departmental level. This section is composed of the following lines.

3. Line 2.a. - Losses on Disposal of Excess Inventory. This line applies to the supply management business area only. Report those losses on potential excess/actual excess inventory for which an exclusion has been approved by the Office of the DoD Comptroller (Program/Budget).

4. Line 2.b. - Disposal of Equipment/Capital Assets. Report losses (or gains, if applicable) realized upon the disposal of excess equipment and other capital assets when the Office of the Deputy Comptroller (Program/Budget) has approved the exclusion. [Note: Losses on excess equipment and other capital assets disposed of as a result of base closure shall not be reported on this line but shall, instead, be reported on line 2.c.]

5. Line 2.c. - Non-Reimbursable Base Closure (BRAC) Costs. Report losses (or gains, if applicable) in excess of reimbursement directly resulting from a base closure when the Office of the Deputy Comptroller (Program/Budget) has approved the exclusion.

6. Line 2.d. - Military Personnel Cost Variance. The purpose of this line is to eliminate any variance between the cost of applied military labor and the amount paid to a military personnel appropriation for that labor.

The cost of military labor applied to work performed at a DBOF activity and the amount paid by the DBOF to the military personnel appropriations are generally not equal. The reason they are not equal is that the amount paid to the military personnel appropriations is the amount estimated in the budget; however, the cost of military labor applied to work performed is a function of the actual number and grade of military personnel at an activity. The difference, gain or loss, between the amount paid and the cost applied to work is not recoverable in stabilized billing rates. Therefore, this line shall show an adjustment of Net Operating Results to arrive at the amount that is to be used for stabilized rate development. The adjustment shall be equal to the amount to the account 1451.1, "Prepaid Expenses - Military Personnel - DBOF," adjustment amount recorded to Account 3311.1, "Cumulative Results of Operations-DBOF." When the military personnel expense is more than the amount paid to military personnel appropriations, the adjustment shall be shown as a positive amount. When the military personnel expense is less than the amount paid to military personnel appropriations, the adjustment shall be shown as a negative amount.

7. Line 2.e. - Capital Asset Surcharge. Capital surcharge amounts included in revenue should be deducted to avoid the return of an apparent gain in the development of the subsequent year rate structure. This line is left blank when there is no capital surcharge revenue. A capital surcharge shall be included in customer rates only if approved by the Office of the Deputy Comptroller (Program/Budget). A capital surcharge might be approved when the amount of depreciation expense of existing capital assets included in stabilized rates is less than the budgeted Capital Investment Program. As the capital surcharge does not have an offsetting expense, in isolation from other transactions, it would be anticipated to result in a gain to net operating results. That gain must be deducted from Net Operating Results to prevent its return to customers in subsequent years through stabilized rates that are lower than they would be otherwise.) Capital surcharge amounts may be reported without the prior approval of the Office of the Deputy Comptroller (Program/Budget).

8. Line 2.f. - Other Applicable Gains and Losses. Report any other nonrecoverable or deferred gains or losses not reportable on lines 2.a. through 2.e. above when approved by the Office of the Deputy Comptroller (Program/Budget).

9. Line 2.g. - Total - Nonrecoverable/Deferred Amounts. Report the total of lines 2.a. through 2.f.

10. Line 3. Net Operating Results that are Comparable to Budgeted Amounts. Report the net difference between line 1 less line 2.g. This amount should be comparable to the amount of Net Operating Results provided or otherwise approved by the Office of the Deputy Comptroller (Program/Budget) in the applicable DoD Component's current budget.

11. Line 4. Amount Budgeted for the Return/Recovery of Prior Year(s) Gain/Loss. This includes the gain or loss occurring in the reporting period that were deliberately included in stabilized rates for the current year to correct (offset) over- or underpricing in a prior fiscal year(s). (For example, if accumulated operating results were a loss for the prior fiscal year(s), the stabilized rate for the current year normally would recover, in

addition to current year operating costs, those losses realized in the prior fiscal year(s). The recovery of the prior year(s) loss does not have a current year expense to offset it; therefore, financial reports will indicate a gain. As this gain was planned to offset the prior loss(es), that gain should not be returned in subsequent year rates. To be reported, the applicable gain or loss must be approved by the Office of the Deputy Comptroller (Program/Budget) and should have been reflected in the applicable DoD Component's approved budget.

12. Line 50. Net Recoverable Operating Results From Current Year Operations. Report the net total between line 3 and line 4.

NOTE: At fiscal year end, the Net Operating Results is closed to Accumulated Operating Results. Since part of that amount is a nonrecoverable/deferred amount, that part should be separately identified in financial records. To provide a means to accomplish that objective, the account for Accumulated Operating Results has been subdivided into two subaccounts. They are:

3311.1 Cumulative Results of Operations-DBOF
3311.2 Cumulative Results of Operations-DBOF-Deferred

Therefore, annually, as part of the fiscal year closing process, the amount reported on line 2.g., "Total - Nonrecoverable/ Deferred Amounts," shall be recorded to GLA 3311.2; the amount reported on line 5, "Net Recoverable Operating Results From Current Year Operations," shall be recorded to GLA 3311.1. The total of the amounts recorded to those two accounts for a fiscal year shall equal the net operating results of that fiscal year.

PART VI - CAPITAL INVESTMENT PROGRAM

A. General

1. Both obligations and outlays for capital assets costing $25,000 ($15,000 in FY 1993) or more and have a useful life of 2 years or greater, must be accounted for, and reported according to the initial program year of authorization.

2. For reporting these amounts, the reporting period is defined as the year to date amounts, i.e., amounts reported since the end of the prior fiscal year to the end of the reporting month shown in the heading of Part V.

B. Heading. Complete the heading of the form to show (a) the reporting DoD Component, (b) the reporting business area/activity (c) the reporting period (month), and (d) the year.

C. Columnar Instructions. The contents of the columns should be as follows:

1. Program Year (Column 1). Separate fiscal year program identification is required. All prior fiscal years must be separately identified until all obligations and outlays for the approved program have been fully concluded. The fiscal year programs will be arranged in consecutive order, starting with the least current fiscal year program.

2. Original Program (Column 2). Amounts included in this column shall be the approved program amounts provided in the annual operating budgets of the initial program year. The amount reported should not change in subsequent years. Changes in the Capital Investment Program amounts are shown in column 3.

3. Program Adjustments (Column 3). Amounts included in this column shall be adjustments (generally, deductions) to the initial approved Capital Investment Program amounts. Adjustments to the initial approved program amounts are disclosed in the annual operating budgets for a subsequent program year. The amount reported in this column may change annually as of the beginning of a fiscal year but should not change during a fiscal year.

4. Current Program (Column 4). This is the sum of the original program (column 2) and program adjustments (column 3). These amounts will be subject to the provisions of 31 U.S.C., Section 1517(a).

5. Obligations - This Fiscal Year (Column 5). Amounts included in this column shall be the total amount of obligations incurred in the current fiscal year.

6. Obligations - Prior Fiscal Year(s) (Column 6). Amounts included in this column shall be the cumulative amount of obligations incurred in fiscal years prior to the current fiscal year. The amount reported should not change during the reporting fiscal year.

7. Obligations - Total (Column 7). This is the sum of current fiscal year obligations (column 5) and cumulative prior year obligations (column 6).

8. <u>Outlays - This Fiscal Year (Column 8)</u>. Amounts included in this column shall be the total amount of outlays incurred in the current fiscal year.

9. <u>Outlays - Prior Fiscal Years (Column 9)</u>. Amounts included in this column shall be the cumulative amount of outlays in fiscal years prior to the current fiscal year. The amount reported should not change during the reporting fiscal year.

10. <u>Outlays - Total (Column 10)</u>. This is the sum of current fiscal year outlays (column 8) and cumulative prior year outlays (column 9).

PART VII - INVENTORY MANAGEMENT REPORT
SUPPLY MANAGEMENT BUSINESS AREA

NOTE: The following entry descriptions are intended to be consistent those previously described in DoD 7420.13-R, "Stock Fund Operations," for the Accounting Report (AR) 1302.

A. Purpose. The Inventory Management Report is prescribed to compare fiscal data from the supply management business area general ledger with the approved operating program for the purpose of monitoring the execution of the current year budget.

B. General Reporting Requirements

1. Frequency. The Inventory Management Report shall be prepared at the end of each month and submitted in triplicate to the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller) by the end of the month after the report period.

2. Rounding. Amounts reported shall be rounded to the nearest thousand dollars.

3. Form. Each DoD Component shall submit a Inventory Management Report for each supply management business area division on forms consistent with the example provided. Division reports shall show entries only for column one.

C. Specific Reporting Requirements

1. Description of Line Entries. Specific descriptions of entries for each line on the Inventory Management Report are provided in paragraph E. below.

2. Planned to Date. Column 2, "Planned To Date," shall reflect the cumulative programed amount, at the total DoD Component level, for the month being reported.

3. Variance. On only the total DoD Component supply management business area summarized report Column 3, "Variance," shall reflect the difference between column 1 and column 2 in terms of both the dollar amount and the percentage.

D. Relationship to Report on Budget Execution. The cumulative fiscal year to date amount in accounts 4252, "Reimbursements Earned-Uncollected-Specific Apportionment," and 4254, "Reimbursements Earned-Collected-Specific Apportionment" shall be reported on the DD Form 1176, "Report on Budget Execution," RCS DD-COMP(M)1125, line 3A, as "Earned" (reimbursements and other income). The cumulative fiscal year to date net change in account 4232, "Unfilled Customer Orders-Specific Apportionment," shall be reported on the DD Form 1176, line 3B, as "Change in Unfilled Customer Orders." The cumulative fiscal year to date amount in account 4131, "Contract Authority-Without Liquidating Appropriation," shall be reported on line 1B of the DD form 1176 as "Other New Authority Realized," except that a negative amount shall not be reported. At the end of the fiscal year the cumulative from

inception amount of account 4131 shall be adjusted and reported as required by paragraph Q.2.d.(2) of chapter 55, "Inventory and Supply Management Requirements," of this Regulation. That adjustment process is:

1. Add the year-end balances in accounts 4800, "Undelivered Orders," 4910, "Accrued Expenditures - Unpaid - Direct Program," and 4920, "Accrued Expenditures - Unpaid - Reimbursable Program."

2. From this sum subtract the sum of the year-end balances in accounts 4230, "Unfilled Customer Orders," 4251, "Reimbursements Earned-Uncollected-Automatic Apportionment," 4252, "Reimbursements Earned - Uncollected - Specific Apportionment," and 1010, "Fund Balance With Treasury."

3. The cumulative from inception balance in account 4131, "Contract Authority - Without Liquidating Appropriation," should equal the results of this computation. If not equal, the 4131 account shall be adjusted to equal the result.

The amount in account 4211, "Anticipated Reimbursements-Specific Apportionment," after adjustment by the net change in operating obligations incurred during the month as recorded in account 4820, "Undelivered Orders - Reimbursable Program," account 4920, "Accrued Expenditures - Unpaid - Reimbursable Program," and account 4940, "Accrued Expenditures - Paid - Reimbursable Program," as indicated in paragraph Q.2.d.(2) of chapter 55, "Inventory and Supply Management Requirements," of this Regulation less the amounts reported on lines 3A and 3B of the DD Form 1176, shall be reported on line 3C as anticipated reimbursements.

E. Description of Entries

1. Line A - Customer Orders Accepted - Cumulative. Enter the total amount of customer orders received for the Fiscal Year to date. Report the balance of the following general ledger account:

4220 Reimbursable Orders Accepted

2. Line B - Gross Reimbursable Sales of Property - Cumulative. Enter the total sales for this Fiscal Year to date. The amount reported shall equal the amount reported on line 2.a. of Part I of the Statement of Operations. Report the balance of the following general ledger account:

5100 Revenue From Goods Sold

3. Line C - Unfilled Customer Orders. Enter the amount of requisitions or orders outstanding from customers. Report the balance of the following general ledger account:

4230 Unfilled Customer Orders - Unobligated

4. Line D - Customer Returns - Credits Granted - Cumulative. Enter the amount of credit granted to customers for material returns for the Fiscal Year to date. The amount reported shall equal the amount reported on line 2.b. of Part I of the Statement of Operations. Report the total amount of

credit granted to customers for material returns from the following general ledger account:

1529.1E Customer Returns - Credit Given

5. Line E - Net Reimbursable Sales of Property - Cumulative. Enter net sales for this Fiscal Year to date. The amount reported shall equal the amount reported on line 2. of Part I of the Statement of Operations. Report the result of line B. less line B. above.

6. Line F - Purchases at Cost - Cumulative. Enter the amount of purchases at cost for this Fiscal Year to date. The amount reported shall equal the amount reported on line 2.d. of Part III, "Cost of Goods Sold and Services Provided," of the Statement of Operations. Report the balance of the following general ledger account:

1529.1C Purchases at Cost

7. Line G - Obligations - Cumulative. Enter the total obligations incurred this Fiscal Year to date. (The sum of report lines H., I., and J., below.)

8. Line H - Obligations Operating - Cumulative. Enter the amount of operating obligations incurred this Fiscal Year to date. The amount reported should not include obligations reported on lines I. and J. Report balances from subsidiary accounts to the following general ledger accounts:

4800 Undelivered Orders
4900 Expended Appropriations

9. Line I - Obligations Augmentation - Cumulative. Enter the amount of obligations incurred this Fiscal Year to date for inventory augmentation, initial issue, etc. (Inventory augmentation purposes are defined in Volume 2, Chapter 9, of this Financial Management Regulation.) The amount reported should not include obligations reported on lines H. and J. Report balances of subsidiary accounts to the following general ledger accounts:

4800 Undelivered Orders
4900 Expended Appropriations

10. Line J - Obligations Mobilization - Cumulative. Enter the total amount of obligations for war reserve purposes. (War reserve purposes are defined in Volume 2, Chapter 9, of this Financial Management Regulation.) The amount reported should not include obligations reported on lines H. and I. Report balances of subsidiary accounts to the following general ledger accounts:

4800 Undelivered Orders
4900 Expended Appropriations

11. Line K - Outstanding Commitments. Enter the amount of commitments outstanding that has not resulted in obligations. Report the balance of the following general ledger account:

4700 Commitments Available for Obligation

12. Line L - Inventories - Stock On Hand. Enter the total amount of inventory on hand at the end of the report period after adjustment to latest acquisition cost. The amount reported shall equal the amount reported on line 4. of the Statement of Financial Position less the amount reported on line N of this Inventory Management Report. Report the net total balance of the following general ledger accounts after adjustment to estimated cost:

1521 Inventory Held for Sale
1522 Inventory Held in Reserve for Future Sale
1523 Inventory Held for Repair
1524 Inventory - Excess, Obsolete, and Unserviceable
1529 Inventory - Allowance
1573 War Reserve/Mobilization Stock
1579.2 Allowance for Holding Gain/Loss - War Reserve/Mobilization

13. Line M - Other Inventories. Enter the total amount of other inventories (except inventories in transit reported on line N) consisting of Work in Progress, On Loan to Others for Use, and With Agents. Report the net total balance of the following general ledger accounts:

1581 Work in Process - In House
1582 Work in Process - Contractor
1583 Work in Process - Other Government Activities
1584 Work in Process - Government Furnished Material
1590 Other Related Property

14. Line N - Inventories in Transit. Enter the amount of material in transit. Report the balance of the following general ledger accounts:

1521.1 Inventory in Transit from Procurement
1521.2 Inventory in Transit from DoD Entities
1523.1 Exchange (DLR) Inventory in Transit

15. Line P - Total Inventories. Enter the sum of the amounts reported on lines L., M., and N., above.

16. Line Q - Customer Returns Without Credit - Cumulative. Enter the amount of returns from customers without credit. The amount reported should equal the net of the total amount of returns from customers less the amount reported on line D., above. Report the balance of the following general ledger account:

1529.1F Customer Returns Without Credit Given

17. Line R - Transfers to Reutilization and Marketing Offices - Cumulative. Enter the net amount transferred to DMROs for the Fiscal Year to date. Report the amount from the following general ledger account that applies to transfers to reutilization and marketing offices:

3231 Transfers Out to Government Agencies - Without Reimbursement

18. Line S - Material Returns to Suppliers - Cumulative. Enter the total amount of returns to public suppliers and contractors from a subsidiary account to the following general ledger account:

1316 Refunds Receivable - Public

and the total amount of returns to federal government suppliers from a subsidiary account to the following general ledger account:

7291 Inventory Losses or Adjustments

19. Line T - Undelivered Orders. Enter the total amount of undelivered orders outstanding. Report the balance of the following general ledger account:

4800 Undelivered Orders

20. Line U - Fund Balance With Treasury. Enter the total amount of funds with Treasury balance. The amount reported shall equal the amount reported on line 1.e. and 1.f. of the Statement of Financial Position. Report the balance of the following general ledger account:

1010 Fund Balance with Treasury

21. Line V - Funds Collected - Cumulative. Enter the amount of collections for the Fiscal Year to date. The amount reported shall equal the amount reported on line 1.a. and 1.b. of the Statement of Financial Position. Report the balance of the following general ledger account:

1011 Funds Collected

22. Line W - Funds Disbursed - Cumulative. Enter the amount of disbursements for the Fiscal Year to date. The amount reported shall equal the amount reported on line 1.c. and 1.d. of the Statement of Financial Position. Report the balance of the following general ledger account:

1012 Funds Disbursed

23. Line X - Receivables - Government. Enter the amount of receivables outstanding that are due from other federal government entities. Report the balance of the following general ledger accounts:

1311 Accounts Receivable - Government - Current
1312 Accounts Receivable - Government - Noncurrent
1315 Refunds Receivable - Government

24. Line Y - Receivables - Public. Enter the net amount of receivables outstanding that are due from non-federal government entities. Report the net balance of the following general ledger accounts:

1313 Accounts Receivable - Public - Current
1314 Accounts Receivable - Public - Noncurrent
1316 Refunds Receivable - Public

1319 Allowance for Loss on Accounts Receivable
1320 Claims Receivable - Public

25. Line Z - Payables. Enter the total amount of payables outstanding. Report the net total balance of the following Appendix B general ledger account:

2100 Accrued Liabilities - Other

26. Footnotes. Include in a footnote, the estimated balance of line U, above, that is the result of appropriations by type of appropriation, i.e., inventory augmentation or War Reserves and the estimated amount from operations. Include in a footnote, the amount of line L, above, at standard price.

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